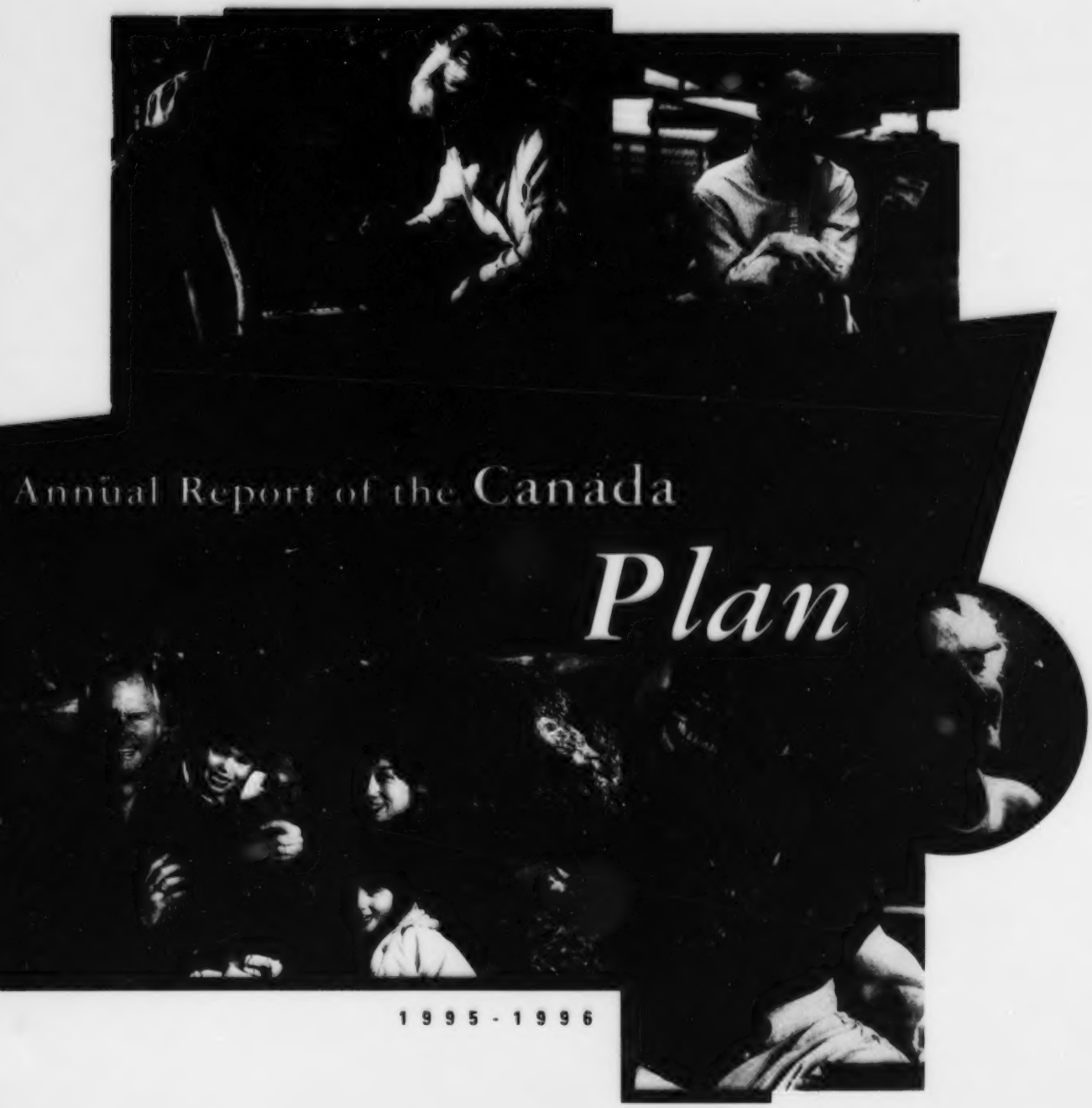
Government of Canada / Gouvernement du Canada



Annual Report of the Canada *Plan*

1995-1996

Canada

ISPB 202-01-97

Produced by Income Security Programs Communications for the Canada Pension Plan Directorate.

If you require additional copies of this annual report, please contact:

Public Enquiries Centre
Human Resources Development Canada
140 Promenade du Portage
Hull, Quebec
K1A 0J9
Tel.: (819) 994-6313
Fax: (819) 953-7260

Aussi disponible en français sous le titre
Rapport annuel du Régime de pensions du Canada 1995-1996

100-04972/

Minister
of Human Resources
Development

Ministre
du Développement
des ressources humaines

Ottawa, Canada K1A 0J9

His Excellency
The Govenor General of Canada

May it please your Excellency:

I have the pleasure to submit the Annual Report of the Canada Pension Plan for the fiscal year 1995-1996.

Respectfully submitted,

Pierre S. Pettigrew

Canada

Table of Contents

About the Canada Pension Plan 3

Departmental Responsibilities 11

Special Initiatives 13

Departmental Reports for the Year 17

- Human Resources Development Canada 17
- Public Works and Government Services Canada 29
- Revenue Canada 30
- Department of Finance 33
- Office of the Superintendent of Financial Institutions 33

Annual Report of the Canada Pension Plan Advisory Board 39

The Canada Pension Plan Account 35

- The Canada Pension Plan Account and the Canada Pension Plan Investment Fund Financial Statements – March 31,1996 43

This is the first Report on the Canada Pension Plan (CPP) that consolidates input from all departments providing services on behalf of the Plan. The intent is to provide a more meaningful presentation of the business of managing the CPP.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

About the Canada Pension Plan

A Measure of Income Protection

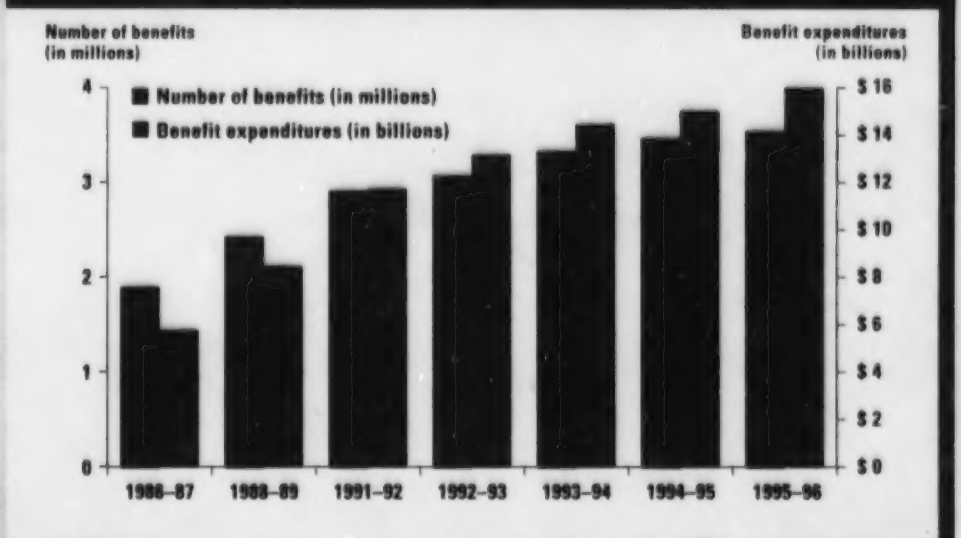
The Canada Pension Plan, which began in 1966, provides benefits to contributors and their families. The CPP covers employed and self-employed persons between the ages of 18 and 70 who earn a minimum level of earnings in a calendar year. The Plan operates in every province and territory, except Quebec, which operates a similar pension program, the Quebec Pension Plan. The benefits and provisions under the Plan include retirement pensions, disability, survivor and death benefits and services under the CPP National Vocational Rehabilitation Project. Benefits are increased each year in January to reflect increases in the average cost of living, as measured by the Consumer Price Index.

The CPP is self-supporting and is a separate fund from general revenue in the Accounts of Canada. It is financed through mandatory contributions from employees, employers and self-employed persons, as well as through earnings on the investments of the Canada Pension Plan Investment Fund. Changes to the legislation governing the general level of benefits or the rate of contributions require an Act of Parliament and the agreement of at least two-thirds of the provinces having not less than two-thirds of the population. In addition, changes of this kind require two years' notice before coming into force unless such notice is waived by the provinces.

Benefits

Over 3.2 million people received 3.6 million benefits totalling approximately $16 billion during the fiscal year 1995-96.

Table 1 Benefits and Expenditures by Fiscal Year



About the Canada Pension Plan

A Measure of Income Protection

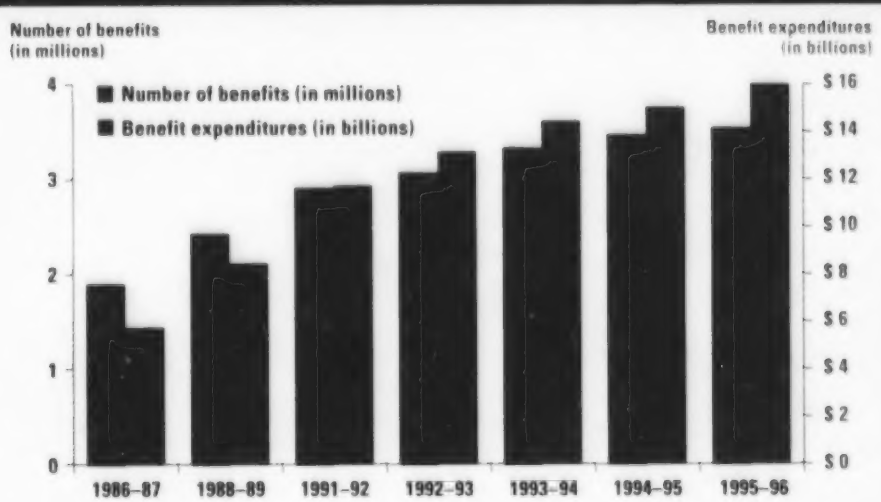
The Canada Pension Plan, which began in 1966, provides benefits to contributors and their families. The CPP covers employed and self-employed persons between the ages of 18 and 70 who earn a minimum level of earnings in a calendar year. The Plan operates in every province and territory, except Quebec, which operates a similar pension program, the Quebec Pension Plan. The benefits and provisions under the Plan include retirement pensions, disability, survivor and death benefits and services under the CPP National Vocational Rehabilitation Project. Benefits are increased each year in January to reflect increases in the average cost of living, as measured by the Consumer Price Index.

The CPP is self-supporting and is a separate fund from general revenue in the Accounts of Canada. It is financed through mandatory contributions from employees, employers and self-employed persons, as well as through earnings on the investments of the Canada Pension Plan Investment Fund. Changes to the legislation governing the general level of benefits or the rate of contributions require an Act of Parliament and the agreement of at least two-thirds of the provinces having not less than two-thirds of the population. In addition, changes of this kind require two years' notice before coming into force unless such notice is waived by the provinces.

Benefits

Over 3.2 million people received 3.6 million benefits totalling approximately $16 billion during the fiscal year 1995-96.

Table 1 – **Benefits and Expenditures by Fiscal Year**



Contributions

Contributions to the Plan are compulsory and are based on employee earnings exceeding the Year's Basic Exemption (YBE) up to a ceiling known as the Year's Maximum Pensionable Earnings (YMPE). The YMPE is linked to the average Canadian wage. Both the YBE and the YMPE are adjusted annually. The YBE increased from $3,400 in 1995 to $3,500 in 1996; the YMPE from $34,900 to $35,400 in the same period. Contributions cannot be made after age 70, after a contributor begins to receive a CPP retirement pension or while an individual is receiving a CPP disability benefit.

From 1966 to 1986, the contribution rate was 1.8% for employees and employers with the self-employed paying 3.6% of their earnings subject to the yearly maximum amounts. The contribution rate began to increase in 1987 with a combined employee-employer increase of 0.2% for 1987 to 1991 and again for 1992 to 1996. The current rates in 1996 are 2.8% for employees, 2.8% for employers with the self-employed paying 5.6%. The rates beyond 1996 will depend on the conclusions reached during the 1996 quinquennial review and public consultation process led by the federal, provincial and territorial Ministers of Finance.

Contributors paid about $10.6 billion into the Plan during 1995-96. As of March 31, 1996, the Canada Pension Plan Account held approximately $39.1 billion. Contributions are collected by Revenue Canada on behalf of the CPP.

Retirement Pension

Eligibility

- Following the contributor's 60th birthday
- If under age 65, the month after the contributor has completely or substantially stopped working

Benefit Rates

- Based on the individual's contributions paid into the Plan
- Benefits actuarially adjusted by 0.5% for each month the contributor is over or under 65 at the commencement of the pension
- Maximum adjustment is 30%

Table 2 – **Maximum and Average Retirement Pension Amounts Payable**

Age benefit begins	Maximum amount payable 1995	Maximum amount payable 1996	Average amount paid March 1995	Average amount paid March 1996
Age 65	$713.19	$727.08	$409.32	$416.75
All ages			$383.55	$392.61

Retirement Pension – Facts and Figures

Retirement pensions represent 65% of the volume of total benefits processed and 67% of the dollar benefit amount paid out by the CPP.

Table 4 illustrates that the percentage of new retirement beneficiaries choosing to receive their benefits before age 65 has increased over the last few years and stands at 61% for 1995.

Assignment of Retirement Pensions

In certain circumstances, spouses in a continuing marriage or common-law relationship can receive an equal share of the retirement pension earned by both parties during their life together. Both must be at least 60 and have applied for their retirement pensions.

Table 3 – **Number of Retirement Pensions and Annual Expenditures**

Year ending March 31	Number of benefits (in thousands)	Number of new benefits	Benefit expenditures (in billions)
1991–92	1,951	168,135	$7.855
1992–93	2,047	171,110	$8.706
1993–94	2,141	176,308	$9.322
1994–95	2,231	178,094	$9.912
1995–96	2,321	180,998	$10.531

Table 4 – **New Retirement Beneficiaries Electing Early Benefits (as a percentage of new beneficiaries)**

Year	Age 60	Age 61–65	Total <65	At age 65	>65
1989	25	31	56	39	5
1991	30	29	59	37	4
1992	31	29	60	35	5
1993	32	29	61	34	5
1994	34	29	63	32	5
1995	35	26	61	34	5

Contributions

Contributions to the Plan are compulsory and are based on employee earnings exceeding the Year's Basic Exemption (YBE) up to a ceiling known as the Year's Maximum Pensionable Earnings (YMPE). The YMPE is linked to the average Canadian wage. Both the YBE and the YMPE are adjusted annually. The YBE increased from $3,400 in 1995 to $3,500 in 1996; the YMPE from $34,900 to $35,400 in the same period. Contributions cannot be made after age 70, after a contributor begins to receive a CPP retirement pension or while an individual is receiving a CPP disability benefit.

From 1966 to 1986, the contribution rate was 1.8% for employees and employers with the self-employed paying 3.6% of their earnings subject to the yearly maximum amounts. The contribution rate began to increase in 1987 with a combined employee-employer increase of 0.2% for 1987 to 1991 and again for 1992 to 1996. The current rates in 1996 are 2.8% for employees, 2.8% for employers with the self-employed paying 5.6%. The rates beyond 1996 will depend on the conclusions reached during the 1996 quinquennial review and public consultation process led by the federal, provincial and territorial Ministers of Finance.

Contributors paid about $10.6 billion into the Plan during 1995-96. As of March 31, 1996, the Canada Pension Plan Account held approximately $39.1 billion. Contributions are collected by Revenue Canada on behalf of the CPP.

Retirement Pension

Eligibility

- Following the contributor's 60th birthday
- If under age 65, the month after the contributor has completely or substantially stopped working

Benefit Rates

- Based on the individual's contributions paid into the Plan
- Benefits actuarially adjusted by 0.5% for each month the contributor is over or under 65 at the commencement of the pension
- Maximum adjustment is 30%

Table 2 Maximum and Average Retirement Pension Amounts Payable

Age benefit begins	Maximum amount payable 1995	Maximum amount payable 1996	Average amount paid March 1995	Average amount paid March 1996
Age 65	$713.19	$727.08	$409.32	$416.75
All ages			$383.55	$392.61

Retirement Pension – Facts and Figures

Retirement pensions represent 65% of the volume of total benefits processed and 67% of the dollar benefit amount paid out by the CPP.

Table 4 illustrates that the percentage of new retirement beneficiaries choosing to receive their benefits before age 65 has increased over the last few years and stands at 61% for 1995.

Assignment of Retirement Pensions

In certain circumstances, spouses in a continuing marriage or common-law relationship can receive an equal share of the retirement pension earned by both parties during their life together. Both must be at least 60 and have applied for their retirement pensions.

Table 3 Number of Retirement Pensions and Annual Expenditures

Year ending March 31	Number of benefits (in thousands)	Number of new benefits	Benefit expenditures (in billions)
1991–92	1,951	168,135	$7.855
1992–93	2,047	171,110	$8.706
1993–94	2,141	176,308	$9.322
1994–95	2,231	178,094	$9.912
1995–96	2,321	180,998	$10.531

Table 4 New Retirement Beneficiaries Electing Early Benefits (as a percentage of new beneficiaries)

Year	Age 60	Age 61–65	Total 60–65	At age 65	65
1989	25	31	56	39	5
1991	30	29	59	37	4
1992	31	29	60	35	5
1993	32	29	61	34	5
1994	34	29	63	32	5
1995	35	26	61	34	5

Disability Benefits

Eligibility

Disability

- To qualify contributors must
  - be disabled according to CPP legislation and
  - be between the ages of 18 and 65 and
  - meet minimum contributory requirements

Children's

- Paid on behalf of the dependent children of the disabled beneficiary if
  - children are less than age 18 or
  - between 18 and 25 and in full-time attendance at school or university

Benefit Rates

Disability

- Consists of a flat-rate amount and an amount based on the level of contributions of the applicant
- At age 65, a disability benefit is automatically converted to a retirement pension

Children's

- Flat-rate monthly benefit paid on behalf of the dependent children of the disabled contributor
- Children may receive a maximum of two disabled contributors' benefits

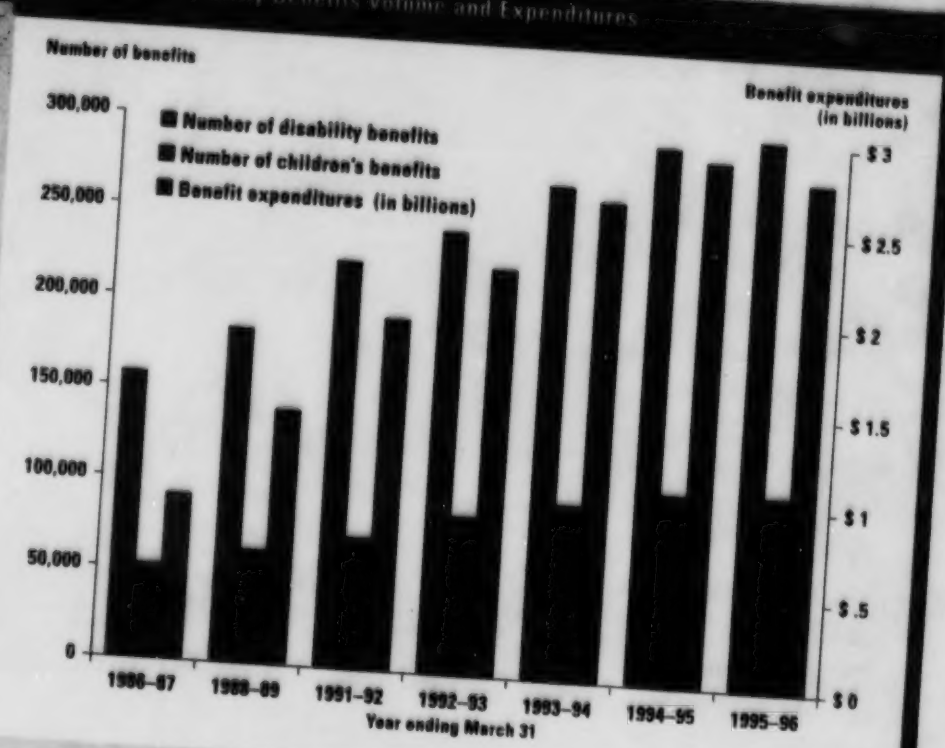
A contributor is considered disabled under the CPP when the physical or mental condition is both severe and prolonged. "Severe" means that the person is prevented from working regularly at any job. "Prolonged" means that the condition is long term or may result in death.

The maximum and average amounts payable for 1995 and 1996 are presented in table 5.

Table 5 Maximum and Average Disability Benefits Amounts Payable

Type of disability benefit	Maximum amount payable 1995	Maximum amount payable 1996	Average amount paid March 1995	Average amount paid March 1996
Disability	$854.74	$870.92	$848.17	$856.95
Children's (flat-rate)	$161.27	$164.17	–	–

Disability Benefits Volume and Expenditures



Disability Benefits – Facts and Figures

Disability benefits represent 11% of the volume of total benefits processed and 17% of the dollar benefit amount paid out by the CPP.

Survivor Benefits

Eligibility

Survivor

- The deceased must have made a minimum amount of contributions to the CPP
- The common-law or legal spouse of the deceased contributor may be eligible for a survivor pension
- In determining eligibility and the rate of payment, factors considered are
  - age of the surviving spouse
  - whether or not the spouse is disabled
  - whether or not the spouse has dependent children of the deceased contributor

Orphan

- The natural, adopted, or child in the care and control of the deceased contributor, at the time of death, may be eligible for the orphan's benefit if
  - less than age 18 or
  - between 18 and 25 and in school full-time

Death

- Paid to the deceased contributor's estate or the person responsible for the funeral expenses

Disability Benefits

Eligibility

Disability

- To qualify contributors must
  - be disabled according to CPP legislation and
  - be between the ages of 18 and 65 and
  - meet minimum contributory requirements

Children's

- Paid on behalf of the dependent children of the disabled beneficiary if
  - children are less than age 18 or
  - between 18 and 25 and in full-time attendance at school or university

Benefit Rates

Disability

- Consists of a flat-rate amount and an amount based on the level of contributions of the applicant
- At age 65, a disability benefit is automatically converted to a retirement pension

Children's

- Flat-rate monthly benefit paid on behalf of the dependent children of the disabled contributor
- Children may receive a maximum of two disabled contributors' benefits

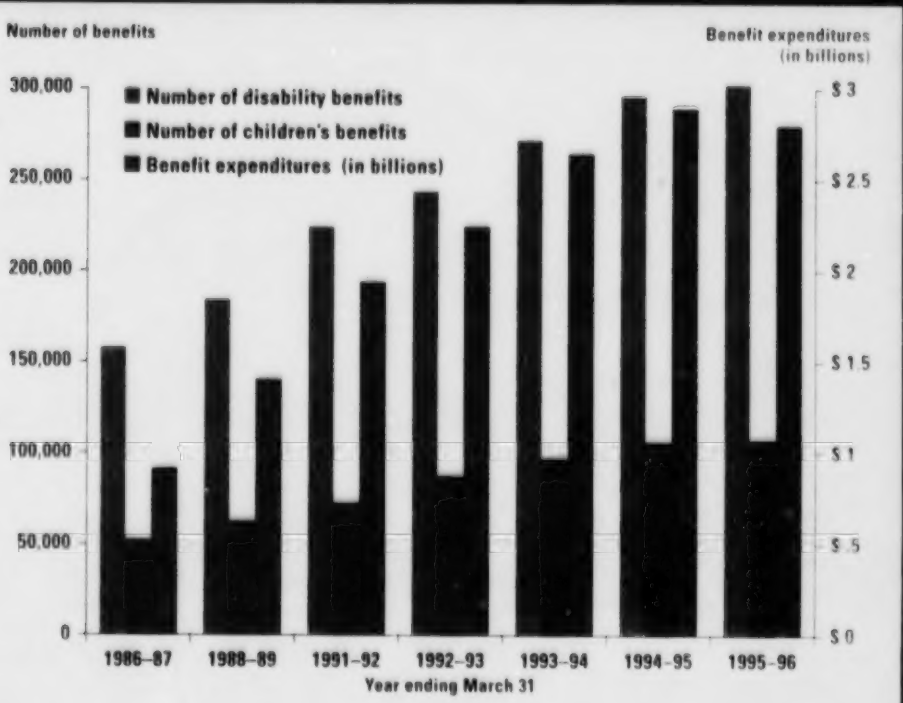
A contributor is considered disabled under the CPP when the physical or mental condition is both severe and prolonged. "Severe" means that the person is prevented from working regularly at any job. "Prolonged" means that the condition is long term or may result in death.

The maximum and average amounts payable for 1995 and 1996 are presented in table 5.

Table 5 – **Maximum and Average Disability Benefits Amounts Payable**

Type of disability benefit	Maximum amount payable 1995	Maximum amount payable 1996	Average amount paid March 1995	Average amount paid March 1996
Disability	$854.74	$870.92	$648.17	$656.95
Children's (flat-rate)	$161.27	$164.17	–	–

Table 6 – Disability Benefits Volume and Expenditures



Disability Benefits – Facts and Figures

Disability benefits represent 11% of the volume of total benefits processed and 17% of the dollar benefit amount paid out by the CPP.

Survivor Benefits

Eligibility

Survivor

- The deceased must have made a minimum amount of contributions to the CPP
- The common-law or legal spouse of the deceased contributor may be eligible for a survivor pension
- In determining eligibility and the rate of payment, factors considered are
  - age of the surviving spouse
  - whether or not the spouse is disabled
  - whether or not the spouse has dependent children of the deceased contributor

Orphan

- The natural, adopted, or child in the care and control of the deceased contributor, at the time of death, may be eligible for the orphan's benefit if
  - less than age 18 or
  - between 18 and 25 and in school full-time

Death

- Paid to the deceased contributor's estate or the person responsible for the funeral expenses

Benefit Rates

Survivor

- Only one survivor's pension payable to the surviving spouse
- If widowed more than once, the larger of the two entitlements is paid

Orphan

- Flat-rate monthly benefit paid to the dependent children of the deceased contributor
- Child must attend school or university to continue to receive the benefit to a maximum age of 25

Death

- Lump-sum payment equal to six months' worth of the deceased contributor's "calculated" retirement pension, up to a set maximum for the year of death

Table 7 Maximum and Average Survivor Benefits Amounts Payable

Type of Survivor benefit	Maximum amount payable 1995	Maximum amount payable 1996	Average amount paid March 1995	Average amount paid March 1996
Spouse <65	$392.24	$399.70	$307.58	$310.58
Spouse >65	$427.91	$436.25	$230.02	$245.78
Orphan (flat rate)	$161.27	$164.17	–	–
Death	$3,490.00	$3,540.00	$2,520.00	$2,567.77

Survivor and Orphan Benefits – Facts and Figures

Survivor benefits represent 24% of the volume of total benefits processed and 16% of the dollar benefit amount paid out by the CPP.

Death Benefits – Facts and Figures

Death benefits represent less than one percent of the volume of total benefits processed and of the dollar benefit amount paid out by the CPP.

Table 8 - Survivor and Orphan Benefits Volume and Expenditures

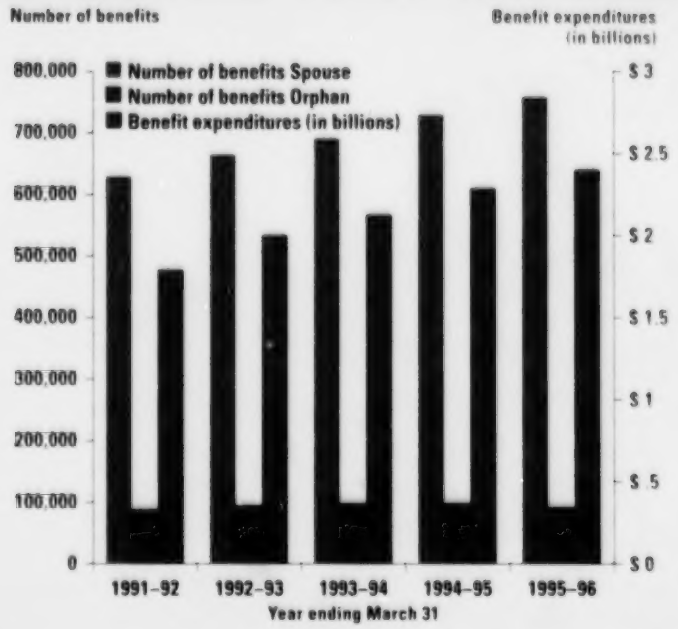
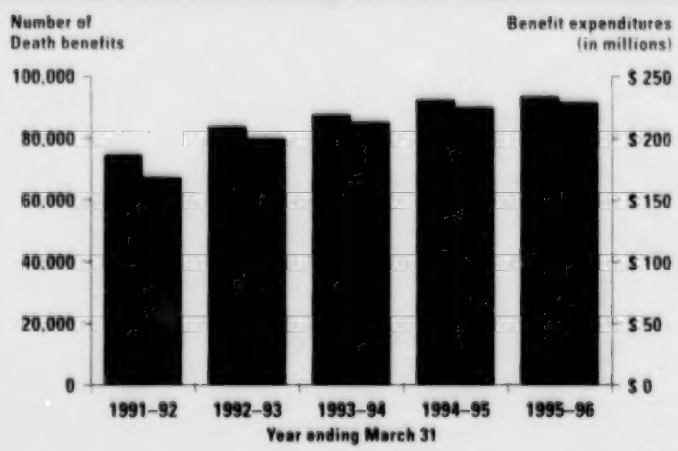


Table 9 - Death Benefits Volume and Expenditures



Benefit Rates

Survivor

- Only one survivor's pension payable to the surviving spouse
- If widowed more than once, the larger of the two entitlements is paid

Orphan

- Flat-rate monthly benefit paid to the dependent children of the deceased contributor
- Child must attend school or university to continue to receive the benefit to a maximum age of 25

Death

- Lump-sum payment equal to six months' worth of the deceased contributor's "calculated" retirement pension, up to a set maximum for the year of death

Table 1 – Maximum and Average Survivor Benefits Amounts Payable

Type of Survivor benefit	Maximum amount payable 1995	Maximum amount payable 1996	Average amount paid March 1995	Average amount paid March 1996
Spouse <65	$392.24	$399.70	$307.58	$310.58
Spouse >65	$427.91	$436.25	$230.02	$245.78
Orphan (flat rate)	$161.27	$164.17	–	–
Death	$3,490.00	$3,540.00	$2,520.00	$2,567.77

Survivor and Orphan Benefits – Facts and Figures

Survivor benefits represent 24% of the volume of total benefits processed and 16% of the dollar benefit amount paid out by the CPP.

Death Benefits – Facts and Figures

Death benefits represent less than one percent of the volume of total benefits processed and of the dollar benefit amount paid out by the CPP.

Table 8 – Survivor and Orphan Benefits Volume and Expenditures

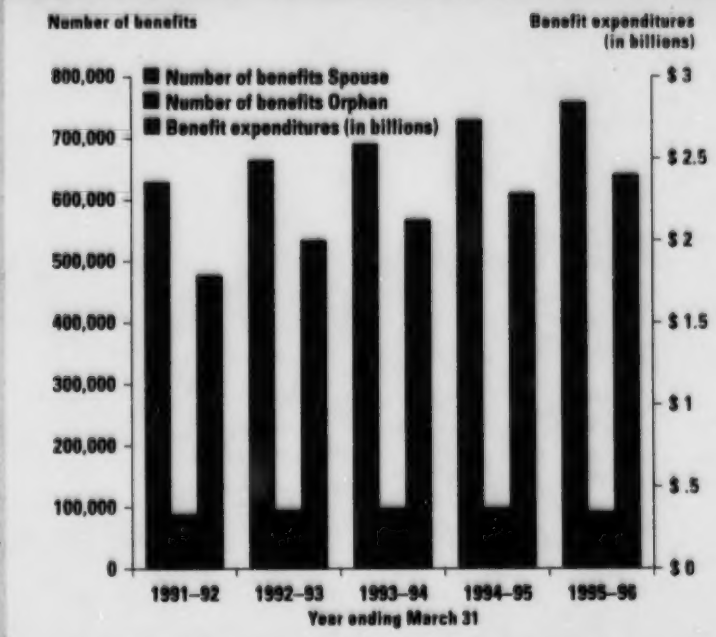
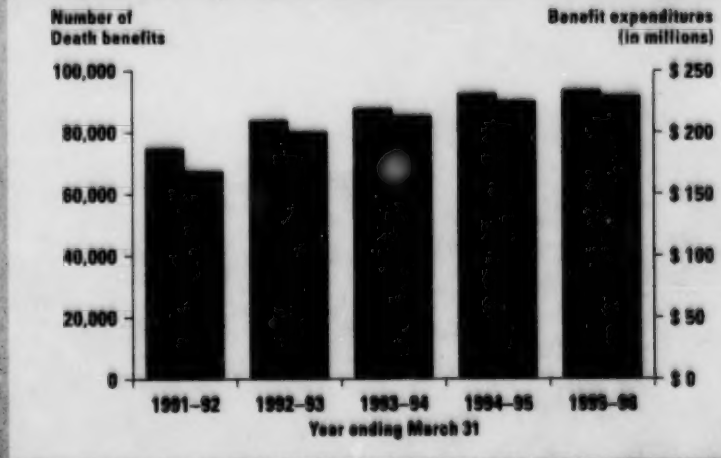


Table 9 – Death Benefits Volume and Expenditures



Departmental Responsibilities

Human Resources Development Canada

- provides clients with information, advice and counselling about CPP
- determines eligibility for benefits
- maintains records and accounts with supporting systems
- provides contributors with information on their earnings, contributions and projected benefits
- manages an appeals process on benefit eligibility, which includes a Review Tribunal and a Pension Appeals Board
- assigns social insurance numbers to individuals and maintains the Central Index of those numbers
- negotiates and administers International Social Security Agreements
- detects overpayments and manages accounts receivable

Revenue Canada

- administers Part I of the CPP, which provides for the collection of contributions from employees, employers and the self-employed
- provides rulings regarding CPP coverage and contribution requirements
- provides contributor information to the CPP
- reconciles T-4s and investigates any discrepancies
- maintains records for remittances, assessments and deposits funds
- manages an appeals process on contribution related matters
- provides system and administrative support

Public Works and Government Services Canada

- issues payment instruments to CPP clients
- develops, maintains and operates supporting information systems to process information on contributor earnings, benefit payments, and program statistics
- provides accommodation and property management

Department of Finance

- sets CPP contribution rates in consultation with the provinces and territories
- manages the CPP Investment Fund by investing excess monies in the CPP in securities of provincial and territorial governments, provincial Crown agencies, or the Government of Canada, in accordance with the provisions of the CPP

Office of the Superintendent of Financial Institutions

The Chief Actuary

- prepares the Actuarial Reports for tabling in Parliament on the projected financial status of the CPP Account for the next 75 years, in accordance with the intervals stated in the CPP:
  - triennial examinations of the operation of the Act and state of the CPP Account
  - quinquennial examinations in connection with the federal/provincial reviews of contribution rates
- prepares actuarial estimates on proposed changes to the Plan's provisions when requested and approved by HRDC, for the Department of Finance, HRDC or other parties
- calculates the effects on the CPP Account of proposed amendments to the CPP once a Bill has been introduced, in accordance with a request received from HRDC

Special Initiatives

A number of initiatives now underway will impact on the future direction of the CPP program or in the way benefits are delivered. The most important of these – the Income Security Programs Redesign, the Five-year Review of the CPP, the Accountability Project and the CPP Program Evaluation – are discussed below.

Income Security Programs (ISP) Redesign

The major challenge currently facing ISP and the CPP is managing the multi-year Major Crown Project, ISP Redesign, through its critical milestones, leading to the implementation of the new Client Service Delivery Network (CSDN). The project, now in the implementation phase which began in 1994, started in response to an expected 41% increase in demand for services over the next 15 years. The ISP Redesign Project will meet this challenge by designing and creating a new integrated Client Service Delivery Network (CSDN) for use by the Old Age Security and CPP programs.

Key Objectives of CSDN

- improve client services
- enhance the security and accuracy of information
- provide greater service delivery flexibility and responsiveness
- increase operational efficiency

The Redesign Project will improve the operating effectiveness and efficiency of the CPP by reducing program delivery costs, improving the timeliness and accuracy of payments and improving client service. The ISP Redesign Project has three phases, two of which have been completed ahead of schedule and below estimated costs.

The prime contractor for the project, EDS of Canada Ltd., is responsible to develop and implement the necessary organizational structure, human resource requirements and information technology needed to support the new CSDN.

Project Accomplishments to Date

- improved basic services through more efficient work processes and the use of work teams
- introduction of Presumptive Applications which are sent to retirement benefit clients before they turn age 65
- installation of a new telephone system using Interactive Voice Response
- clean-up of data
- approval of Service Delivery Agent (SDA) jobs
- completion of 1,470 training sessions on new equipment and software
- installation of all Local Area Networks, computers, telephones, wiring, etc.
- integration of new network support with office automation software

The processing of appeals and disability applications at the regional level is an important element in ISP Redesign. This will bring ISP services closer to our clients and provide better case management and rehabilitation services. Regional staff began in 1996 to undertake the adjudication, processing and maintenance of the CPP Disability and Appeals workload. In line with Release 3, regions will assume responsibility for Record of Earnings and Rehabilitation activities. The new workload will require extensive regional staff training.

A number of external events, which have arisen since the project began, have had an impact on the project:

- new legislation and the reorganization of a number of government departments led to the transfer of the Branch from Health and Welfare Canada to Human Resources Development Canada (HRDC) in 1993;
- responsibility for the Child Tax Benefit was transferred to Revenue Canada in 1995;
- measures were contained in the 1995 budget to have the Old Age Security recovery tax deducted monthly from the benefits paid instead of annually through the individual's income tax return; and
- the non-resident withholding tax was introduced in 1996.

The transfer of ISP to HRDC impacted on the progress of the project in many ways. For instance, the necessity to integrate ISP into the new delivery network of HRDC, the change in the location and configuration of offices, the new regional organization and the need to accommodate the HRDC Service Delivery Vision required modifications to the project.

These events and their impact, as well as the need to clarify processes, have necessitated changes to the project schedule which will affect the scope and delivery times of some elements of the system.

The next major milestone will occur in the fall of 1997 with Release 3 which includes a major effort to convert CPP information holdings, both paper and computerized, to the new CSDN system. With this release, client transactions will be processed using the new CSDN with the following features:

- a single client file
- on-line client data
- on-line adjudication through the rules-based system
- streamlined financial management
- improved correspondence capabilities.

The implementation of CSDN will be supported by a communication plan aimed at ensuring that both employees and clients are made aware of changes, timetables, concerns and success stories. Staff will be provided with the training they require.

Five-year Review of the CPP

CPP will continue to support government policy development in relation to the Canada Pension Plan review. As part of the regular five-year review of the CPP, federal, provincial and territorial Finance Ministers met in early 1996 to discuss future directions for the Plan. An information paper was released in February 1996, followed by cross-Canada consultations with the Canadian public and stakeholders beginning in April 1996. The paper sets

out facts about the CPP, the challenges facing the Plan, and discusses various suggested options and their cost implications.

The views expressed during the consultations will provide useful guidance to Ministers as they consider the changes needed to make the Plan sustainable for future generations of Canadians.

Accountability Project

The Canada Pension Plan is administered and delivered by groups in many organizations and involves the work of various federal and provincial authorities as well as the CPP Advisory Board which reports to the Minister of Human Resources Development. This administrative structure makes it difficult to plan and manage the program and to identify corporate accountabilities.

Reporting accurate information on the costs and performance of each department involved in the program is critical to manage the Account properly and to fulfil external reporting requirements. To improve the CPP's ability to provide such information, the Accountability Project seeks to identify areas in which improvements can be made to increase the accountability of the CPP.

Significant progress has already been made in a number of areas. A draft CPP Business Plan has been prepared and presented to the CPP Advisory Board's audit sub-committee and the Public Accounts Committee. As well, an interdepartmental committee composed of representatives at the ADM-level from all departments providing services to CPP has been formed to discuss matters of mutual interest. It is supported by a parallel working group.

New Memoranda of Understanding (MOUs) have been negotiated and signed with HRDC Corporate Services and the Office of the Superintendent of Financial Institutions. Negotiations are underway with Public Works and Government Services Canada and Revenue Canada to finalize the MOUs with each department.

Efforts are also being made to improve information on the CPP presented to departmental management and the Advisory Board and to improve the timeliness and usefulness of the audit reports on administrative costs. This Annual Report is one such initiative.

Program Evaluation – Canada Pension Plan

In the first quarter of 1995-96, an evaluation of the retirement pension component of the CPP was completed. The evaluation examined the rationale for a CPP retirement pension, its importance to the incomes of seniors, its cost-effectiveness, its affordability, and how the CPP – in particular, its future pension promise – is perceived by the public.

This evaluation confirmed the CPP's significance in the pension system. The CPP remains an important source of retirement income for seniors and is an important component of the retirement plans of those not yet retired. CPP/QPP pension benefits supply an increasingly important portion of the gross income of senior target groups (single men, single women, couples), and its unique features such as coverage of virtually all working Canadians outside Quebec, portability and indexation of benefits, are important to the security of retirees.

The evaluation also stated that the CPP is worth preserving but Canadians must be assured that they can count on it in the future. Its future "affordability" will be affected by various factors: the costs associated with an aging society (health, income security and other services); the debt burden that will be passed on to future generations; and the fairness of asking future generations to pay considerably more than current ge erations do for the same benefit.

In financing the CPP, federal, provincial and territorial Ministers of Finance will examine the issues involved as part of their quinquennial review of the CPP. They will consider a range of factors not dealt with in the evaluation: that when the CPP was introduced, real growth rates in the economy were higher than interest rates whereas today interest rates are higher than real growth rates and that this dramatic reversal, as well as intergenerational fairness, may favour fuller funding of the CPP.

An evaluation of CPP disability is to be completed in the spring of 1996. It is considering the rationale for this program component, its objective achievement, its cost-effectiveness and the reasons for the increase in caseloads.

An evaluation of the relevance, success and cost-effectiveness of other CPP ancillary benefits (survivor benefits, surviving spouse, orphan's and death benefits, child rearing and drop-out provisions and credit splitting) is scheduled to be completed during the 1996-97 fiscal year.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Departmental Reports for the Year

Human Resources Development Canada

Human Resources Development Canada (HRDC) delivers the Canada Pension Plan to Canadians through a cross-country network of over 300 points of service. The cost of administration of these services was about $142 million in 1995-96.

Meeting Canadians' Day-to-day Needs

HRDC provides Canadians with information about the CPP programs, maintains records and accounts on clients and contributors, determines benefit entitlement and continuing eligibility and manages appeals and program integrity.

The Department's Central Index assigns social insurance numbers to individuals and maintains the register of these numbers.

HRDC also negotiates and administers International Social Security Agreements for clients living outside Canada and for new Canadians.

Serving Our Clients

The HRDC delivery network offers clients a choice of how they can do business with the department. Our services are offered through in-person client service centres, by telephone and by mail. Information on benefits is also available through the Internet and at self-service electronic kiosks located at convenient sites across the country. Services are coordinated and supported by regional offices in each province and by national headquarters.

This year the department introduced a series of "Call-First" public information campaigns to encourage clients to do their business by telephone. Follow-up appointments at a client service centre could also be arranged. The aim is to level out the workload through improved scheduling and to reduce client waiting times. As a result, there has been a decline in the number of clients served in person and a corresponding increase in clients served via the telephone.

Number of Interviews at Client Service Centres

Pre-entitlement	166,849	154,884	122,877
Retirement	79,438	75,422	70,300
Survivor	57,954	58,412	52,114
Disability	74,648	71,461	46,494
Subtotal	378,889	360,179	291,585
Others: Credit Splitting Assignment Contributor Services Appeals Processing	25,057	21,856	17,877
Application Processing	45,759	41,128	30,012
Account Maintenance	169,516	157,133	134,273
Total	619,221	580,295	473,947

Departmental Reports for the Year

Human Resources Development Canada

Human Resources Development Canada (HRDC) delivers the Canada Pension Plan to Canadians through a cross-country network of over 300 points of service. The cost of administration of these services was about $142 million in 1995-96.

Meeting Canadians' Day-to-day Needs

HRDC provides Canadians with information about the CPP programs, maintains records and accounts on clients and contributors, determines benefit entitlement and continuing eligibility and manages appeals and program integrity.

The Department's Central Index assigns social insurance numbers to individuals and maintains the register of those numbers.

HRDC also negotiates and administers International Social Security Agreements for clients living outside Canada and for new Canadians.

Serving Our Clients

The HRDC delivery network offers clients a choice of how they can do business with the department. Our services are offered through in-person client service centres, by telephone and by mail. Information on benefits is also available through the Internet and at self-service electronic kiosks located at convenient sites across the country. Services are coordinated and supported by regional offices in each province and by national headquarters.

This year the department introduced a series of "Call-First" public information campaigns to encourage clients to do their business by telephone. Follow-up appointments at a client service centre could also be arranged. The aim is to level out the workload through improved scheduling and to reduce client waiting times. As a result, there has been a decline in the number of clients served in person and a corresponding increase in clients served via the telephone.

Table 10 Number of Interviews at Client Services Centres

Interviews by type of benefit	1993-94 Actual	1994-95 Actual	1995-96 Actual
Pre-entitlement	166,849	154,884	122,677
Retirement	79,438	75,422	70,300
Survivor	57,954	58,412	52,114
Disability	74,648	71,461	46,494
Subtotal	378,889	360,179	291,585
Others: Credit Splitting Assignment Contributor Services Appeals Processing	25,057	21,656	17,677
Application Processing	45,759	41,128	36,012
Account Maintenance	169,516	157,133	134,273
Total	**619,221**	**580,095**	**479,547**

Table 11 illustrates the number of telephone calls handled at the client service centres.

Table 11 - Number of telephone calls to client service centres

Telephone Calls by type	1993-94	1994-95	1995-96
Pre-entitlement	461,051	649,051	638,888
Application Processing	221,523	270,236	297,464
Account Maintenance	766,656	904,239	931,893
Contributor Services	43,070	86,253	121,768
Total Telephone Calls	**1,492,300**	**1,909,779**	**1,990,013**

CPP Disability Benefits

In the three years preceding 1995-96, the number of disability claims has risen at an unprecedented rate. In 1995-96, a study done by ISP determined that reasons for the increase included:

- administrative changes introduced during 1987-1992 broadening eligibility criteria;
- the last recession, which resulted in higher unemployment particularly affecting marginalized workers;
- more referrals from private insurance companies and provincial social assistance programs;
- 1992 legislative changes that made eligibility for late applicants more flexible; and
- better public awareness of CPP disability benefits.

A comprehensive set of administrative measures has been developed and implemented to ensure that only those eligible receive benefits and only those who remain disabled continue to receive benefits.

Measures adopted to address these issues include:

- reassessment of current beneficiaries to review their continuing eligibility for CPP disability benefits
- incentives to reduce barriers to employment for CPP disability beneficiaries
- revised medical disability determination guidelines
- better communication with clients

CPP Disability Reassessment

In May 1993, a pilot project was launched to review the continuing eligibility of clients who may have regained the capacity to work while receiving disability benefits. Because of its success, the project has been expanded and a new automated system has been developed to help manage the reassessment workload and target clients with the highest probability of being gainfully employed. From May 1993 to March 31, 1996, 14,685 reassessments were completed. Forty percent (40%) of those reassessed showed sufficient improvement in their conditions or changes in their circumstances to have their benefits ceased, producing annual savings to the CPP Account of $53.4 million. An additional $17 million in overpayments has also been identified. Savings to the CPP Account over the three years is estimated at $90 to $100 million.

Funding for the three-year project ends in 1996-97. However, in light of the results to date, CPP will seek Treasury Board approval to expand and prolong its reassessment operations at Headquarters until March 1998.

Table 11 illustrates the number of telephone calls handled at the client service centres.

Table 11 Number of telephone calls to client service centres

Telephone Calls by Type	1993-94	1994-95	1995-96
Pre-entitlement	461,051	649,051	638,888
Application Processing	221,523	270,236	297,464
Account Maintenance	766,656	904,239	931,893
Contributor Services	43,070	86,253	121,768
Total Telephone Calls	**1,492,300**	**1,909,779**	**1,990,013**

CPP Disability Benefits

In the three years preceding 1995-96, the number of disability claims has risen at an unprecedented rate. In 1995-96, a study done by ISP determined that reasons for the increase included:

- administrative changes introduced during 1987-1992 broadening eligibility criteria;
- the last recession, which resulted in higher unemployment particularly affecting marginalized workers;
- more referrals from private insurance companies and provincial social assistance programs;
- 1992 legislative changes that made eligibility for late applicants more flexible; and
- better public awareness of CPP disability benefits.

A comprehensive set of administrative measures has been developed and implemented to ensure that only those eligible receive benefits and only those who remain disabled continue to receive benefits.

Measures adopted to address these issues include:

- reassessment of current beneficiaries to review their continuing eligibility for CPP disability benefits
- incentives to reduce barriers to employment for CPP disability beneficiaries
- revised medical disability determination guidelines
- better communication with clients

CPP Disability Reassessment

In May 1993, a pilot project was launched to review the continuing eligibility of clients who may have regained the capacity to work while receiving disability benefits. Because of its success, the project has been expanded and a new automated system has been developed to help manage the reassessment workload and target clients with the highest probability of being gainfully employed. From May 1993 to March 31, 1996, 14,685 reassessments were completed. Forty percent (40%) of those reassessed showed sufficient improvement in their conditions or changes in their circumstances to have their benefits ceased, producing annual savings to the CPP Account of $53.4 million. An additional $17 million in overpayments has also been identified. Savings to the CPP Account over the three years is estimated at $90 to $100 million.

Funding for the three-year project ends in 1996-97. However, in light of the results to date, CPP will seek Treasury Board approval to expand and prolong its reassessment operations at Headquarters until March 1998.

Work Incentives for Disability Beneficiaries

Work incentives were introduced in the spring of 1995 to encourage re-integration of beneficiaries into the work force without exposing them to the automatic loss of benefits.

New measures implemented to remove barriers from employment for CPP disability beneficiaries:

- In the absence of an improvement in the medical condition, beneficiaries can perform volunteer work without fear of losing their disability benefits.
- Beneficiaries with continuing disabilities can attend school, college, university, retraining or upgrading programs and keep receiving their benefits.
- Beneficiaries who return to work will continue to receive benefits during a three-month trial period to ensure that they have in fact regained the capacity to work and to help them with the transition.
- Beneficiaries who successfully go back to work and who must later stop working because of the same medical condition, will be offered a fast-track re-application process.

To inform Canadians about the benefits of this program, information on the work incentive measures was sent to about 100 interest groups, to all MPs, and in response to individual requests. The information kits contain a camera-ready article to allow groups to provide information to their members. In order to assess the impact of this program and the savings resulting from it, monitoring and evaluation methods have been established to provide information concerning its impact.

Improved Medical Disability Determination Guidelines

To ensure more consistency in the medical adjudication process among all program areas within CPP and to ensure that outcomes accurately reflect the spirit and intent of current legislation and policies, new guidelines for the determination of disability were introduced at the end of August 1995.

These guidelines clarify recent decisions of the Pension Appeals Board and stress the medical basis of disability determination through the application of a rigorous analytical framework.

Training of all staff involved in adjudication was carried out to ensure a common understanding of the guidelines and their consistent application.

Reaching Out to Clients

In order to inform clients about the reassessment program, all CPP disability beneficiaries are being sent a letter and a fact sheet providing information about their benefits, the reassessment program, requirements needed to continue to receive a disability pension and prevent monetary error and fraud. Since November 1994, about 190,000 letters have been sent. By January 1997, a total of about 310,000 letters are expected to be sent.

Results of These Measures

The percentage of denials at initial determination has increased from between 50% – 53% of applications with the 1989 guidelines to a current average of 63%, calculated from October 1, 1995 to April 30, 1996. Similarly, the rate of reversal at the first level of appeal has dropped from 51% to 29%.

Partly as a result of these measures, there has been a declining number of

new disability benefits being put into pay over the last 14 months – a trend which is expected to continue into 1996. The disability caseload growth, which represents the total number of clients receiving benefits, has also declined sharply over the last 14 months and this trend is expected to continue. Table 12 illustrates the decline in new disability applications.

Other Disability Initiatives

The National Vocational Rehabilitation Project is designed to provide disability beneficiaries with vocational rehabilitation to allow them to return to work. Services to clients are provided through contracts with 11 private-sector companies across Canada.

As of March 31, 1996, about 20,025 files have been reviewed, with 700 clients being referred to the contracted companies. Of these, 187 clients successfully left CPP disability and 227 cases are currently in active rehabilitation. The budget for 1996-97 is about $1.5 million with the total project cost being about $3.6 million.

The projected savings in disability payments for successfully rehabilitated clients is illustrated in table 13.

Table 12 – **New Disability Applications**

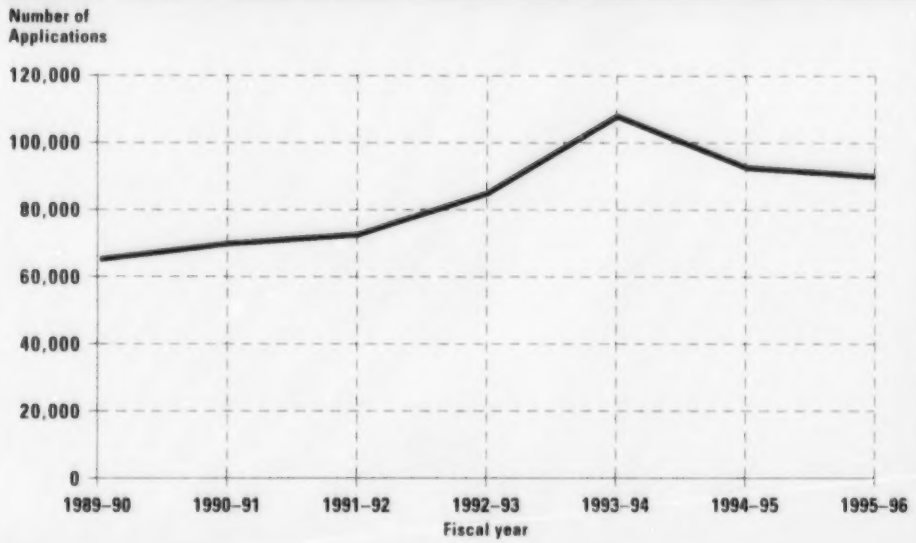
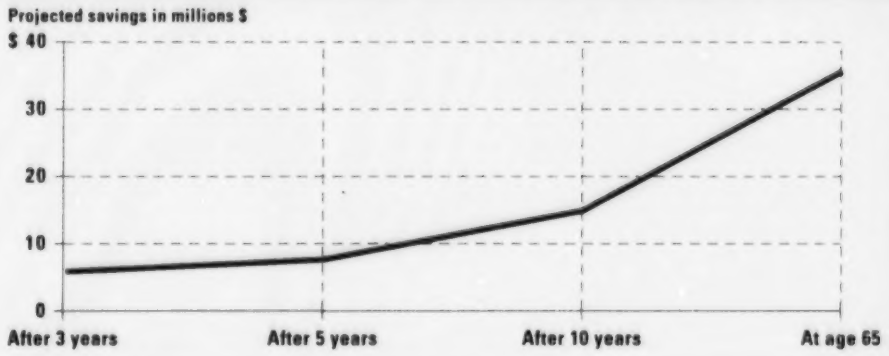


Table 13 – **National Vocational Rehabilitation Project projected savings**



The department has participated in special initiatives to manage the flow of disability applications.

In June 1994, an agreement was signed with the New Brunswick Department of Income Assistance to adjudicate and process applications for CPP disability benefits. After screening 20,000 provincial recipients of social assistance, about 4,000 were forwarded to CPP Disability Operations. As of March 1996, with about 300 applications still to be adjudicated, fewer than 20 percent of these applications have been approved for disability benefits.

A similar agreement was signed in August 1995 with the British Columbia Ministry of Social Services to adjudicate and process approximately 19,000 applications for CPP disability benefits for recipients receiving social assistance. It is anticipated that some one-third of these clients will be eligible for CPP disability benefits. The total estimated allocation for this project is $2.8 million in 1996-97 and $1.2 million in 1997-98.

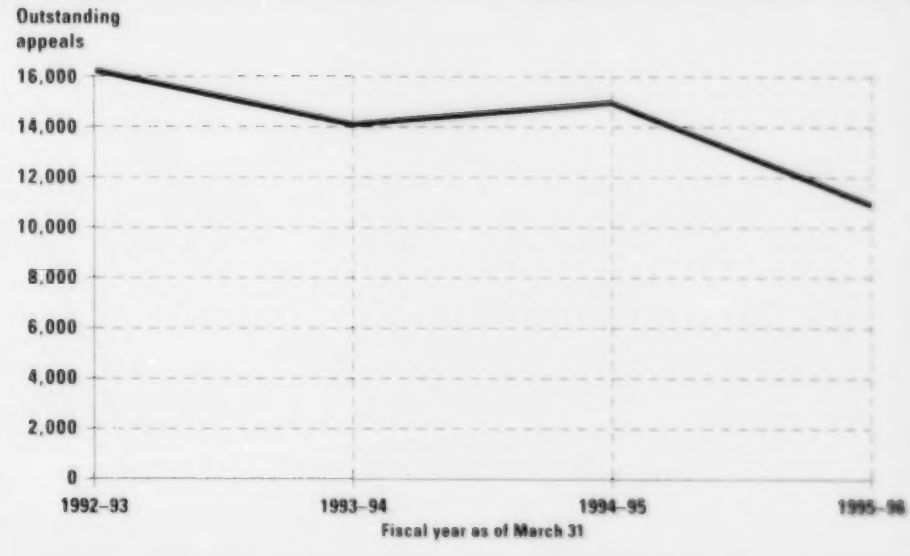
Appealing A Decision

Individuals who are dissatisfied with a decision made on an application for CPP benefits may appeal the decision. Almost all the appeals (over 90%) concern applications for disability benefits. There are three levels to the appeal process. Legislative changes introduced in 1992 and 1995 have improved the appeal process.

First level appeals, known as reconsiderations, are requests to the Minister for a reconsideration of a decision concerning a benefit or a division of pension credits. A review of the file is carried out by an adjudicator who was not involved in the initial decision. Bill C-54, which came into effect in July 1995, formally changed this first level to a request for reconsideration.

As the result of improved internal processes and enhanced team work, the inventory of first level appeals declined to 11,481 as displayed in table 14.

Table 14 – **First Level Appeals**



new disability benefits being put into pay over the last 14 months – a trend which is expected to continue into 1996. The disability caseload growth, which represents the total number of clients receiving benefits, has also declined sharply over the last 14 months and this trend is expected to continue. Table 12 illustrates the decline in new disability applications.

Other Disability Initiatives

The National Vocational Rehabilitation Project is designed to provide disability beneficiaries with vocational rehabilitation to allow them to return to work.

Services to clients are provided through contracts with 11 private-sector companies across Canada.

As of March 31, 1996, about 20,025 files have been reviewed, with 700 clients being referred to the contracted companies. Of these, 187 clients successfully left CPP disability and 227 cases are currenly in active rehabilitation. The budget for 1996-97 is about $1.5 million with the total project cost being about $3.6 million.

The projected savings in disability payments for successfully rehabilitated clients is illustrated in table 13.

Table 12 - New Disability Applications

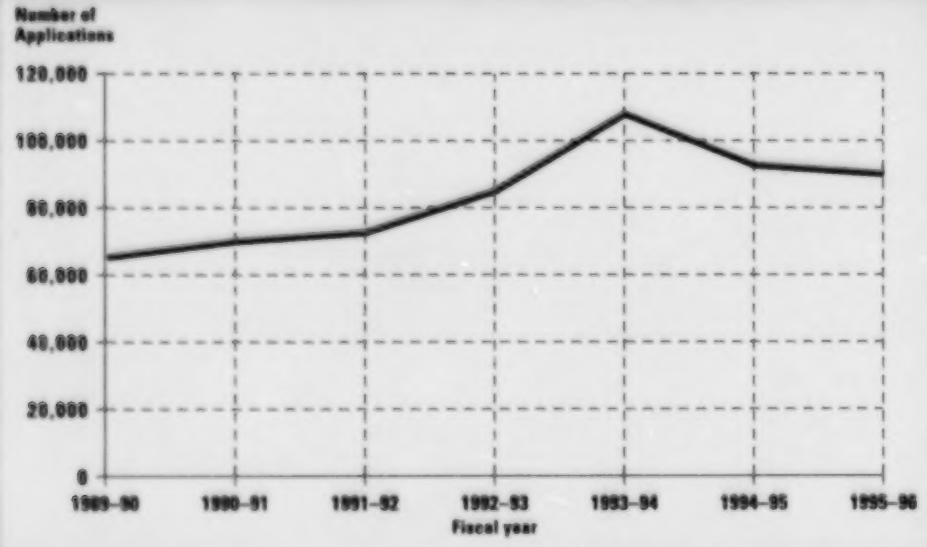
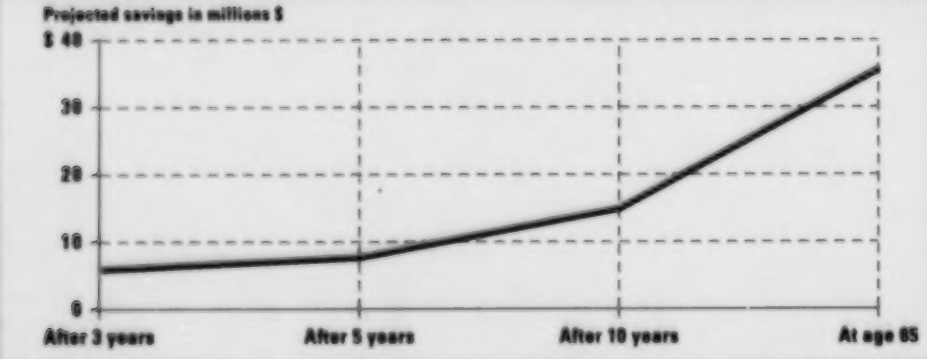


Table 13 - National Vocational Rehabilitation Project projected savings



The department has participated in special initiatives to manage the flow of disability applications.

In June 1994, an agreement was signed with the New Brunswick Department of Income Assistance to adjudicate and process applications for CPP disability benefits. After screening 20,000 provincial recipients of social assistance, about 4,000 were forwarded to CPP Disability Operations. As of March 1996, with about 300 applications still to be adjudicated, fewer than 20 percent of these applications have been approved for disability benefits.

A similar agreement was signed in August 1995 with the British Columbia Ministry of Social Services to adjudicate and process approximately 19,000 applications for CPP disability benefits for recipients receiving social assistance. It is anticipated that some one-third of these clients will be eligible for CPP disability benefits. The total estimated allocation for this project is $2.8 million in 1996-97 and $1.2 million in 1997-98.

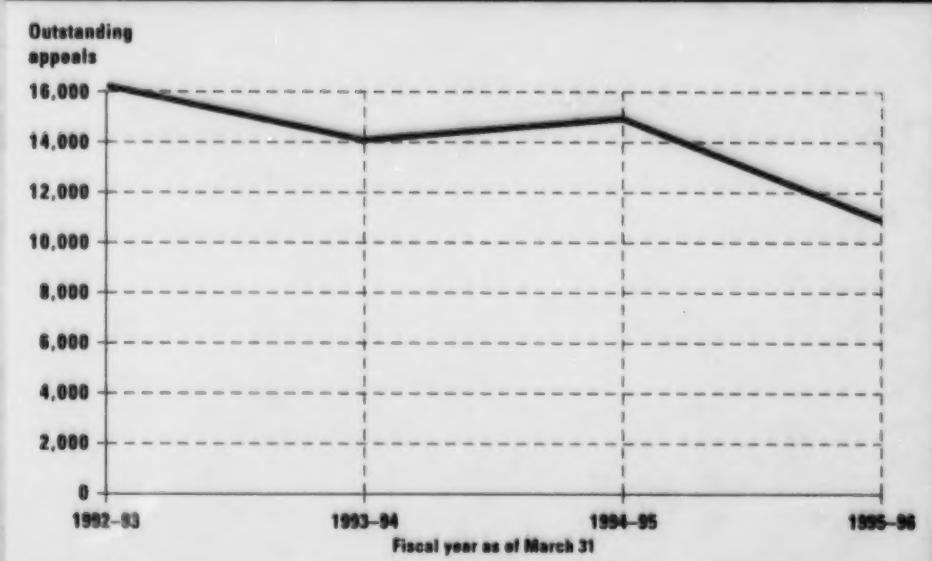
Appealing A Decision

Individuals who are dissatisfied with a decision made on an application for CPP benefits may appeal the decision. Almost all the appeals (over 90%) concern applications for disability benefits. There are three levels to the appeal process. Legislative changes introduced in 1992 and 1995 have improved the appeal process.

First level appeals, known as reconsiderations, are requests to the Minister for a reconsideration of a decision concerning a benefit or a division of pension credits. A review of the file is carried out by an adjudicator who was not involved in the initial decision. Bill C-54, which came into effect in July 1995, formally changed this first level to a request for reconsideration.

As the result of improved internal processes and enhanced team work, the inventory of first level appeals declined to 11,481 as displayed in table 14.

Table 14 First Level Appeals



Benefit granted	11,778	9,893	3,654	2,257
Benefit denied	8,885	9,500	7,025	7,802
Percentage of benefits awarded at appeal	57%	51%	35%	22%

As well, with new policy guidelines for reviewing applications, the rate at which benefits were granted, reversing an initial adjudication decision, declined from 57% in 1993-94 to 22% in 1995-96 as illustrated in table 15.

The appeals function is being decentralized from headquarters to the regions with Victoria, B.C. being the first regional office to process first level appeals. Over 400 reconsiderations were processed from November 1995 to March 31, 1996. More reconsiderations will take place at the regional level in 1996-97 as more regional locations become responsible for this activity.

Second level appeals, or hearings by a Review Tribunal, are available to individuals dissatisfied with decisions rendered at the reconsideration level. A Review Tribunal is an independent body that does act on behalf of the Minister, the appellant or any other party to an appeal. Each Review Tribunal consists of three qualified persons selected by the Commissioner of Review Tribunals from a panel of 100 to 300 members. The chairperson is always a member of the legal profession. If a disability benefit is involved, as in over 95% of the cases heard, at least one of the other members is a health care professional. Hearings are informal, closed to the public and usually held in or near the appellant's community. Table 16 provides an overview of the workload of Review Tribunals by fiscal year ending March 31.

	1994-95 Actual	1995-96 Estimated	
Appeals to review tribunals	4,872	8,000	64.2
Decision reversed by ISP or appeal withdrawn prior to hearing	2,076	2,100	
Cases for tribunal hearings	4,234	7,700	81.9
• Appeals allowed	520	750	
• Appeals dismissed	1,859	2,750	
• Hearings adjourned	94	200	
Total hearings held	2,473	3,700	49.6
Cases outstanding at year end	1,834	4,200	129.0

As of March 31, 1996, the outstanding caseload of 4,200 files represents about a four month workload. New measures implemented by ISP to assess eligibility for disability benefits have resulted in a significant increase in the percentage of cases denied at initial adjudication and at the reconsideration stage. As a result, the average monthly appeals to Review Tribunals for the last quarter of 1995-96 approached 1,000 per month; more than double that of the corresponding period for 1994-95. However, significant improvement has been made in 1995-96 by ISP in decreasing the percentage of reconsideration decisions reversed through an appeal to a Review Tribunal.

It is estimated that, in 1996-97, appeals to Review Tribunals will exceed 12,000 cases and some 8,000 hearings will be held.

Third-level appeals are heard by the Pension Appeals Board (PAB), consisting of judges appointed by Order-in-Council. Board decisions are binding, and may be subject to judicial review by the Federal Court.

The impact of the increased number of appeals at the first and second levels began to reflect in the workload of the PAB in late 1995. Additional medical advisors have been hired to cope with this increased workload. Temporary members have been appointed to the PAB based on the provisions of Bill C-84 which allowed temporary appointments.

In 1995-96, it is estimated that approximately 1,100 decisions of the Review Tribunals were appealed to the Pension Appeals Board; of this number, 11% by the Minister and the balance by appellants and other parties. Table 17 illustrates the level of activity for the PAB.

Keeping Track of Contributions

A record of earnings account is maintained for each of the 22.1 million contributors to the Canada Pension Plan. The account information, which is recorded against a contributor's social insurance number, is used to determine eligibility and to calculate the value of pensions to be paid.

In an effort to promote awareness and understanding of Canadians' rights and obligations under the CPP, personalized statements of earnings and contributions are mailed to all CPP contributors on a regular basis.

The statement includes an estimate of the benefits that would be payable as of the date of the statement. It also provides a snapshot of the earnings and contributions amounts credited to their account, and an opportunity for the contributor to ensure that their record of earnings is correct. During 1996, 1.8 million Statements will be mailed to contributors 35 to 40 years of age.

Pension Appeals Board Third-level Appeals

Workload – April 1st	191	415	591
Incoming workload	498	690	1106
Decision rendered	274	514	609
Cases pending at year end	415	591	875

Table 15 – **First Level Appeals – Grants versus Denials**

	1993-94	1994-95	1995-96 April-Sept	1995-96 Oct-March
Benefit granted	11,778	9,893	3,654	2,257
Benefit denied	8,885	9,500	7,025	7,802
Percentage of benefits awarded at appeal	57%	51%	35%	22%

As well, with new policy guidelines for reviewing applications, the rate at which benefits were granted, reversing an initial adjudication decision, declined from 57% in 1993-94 to 22% in 1995-96 as illustrated in table 15.

The appeals function is being decentralized from headquarters to the regions with Victoria, B.C. being the first regional office to process first level appeals. Over 400 reconsiderations were processed from November 1995 to March 31, 1996. More reconsiderations will take place at the regional level in 1996-97 as more regional locations become responsible for this activity.

Second level appeals, or hearings by a Review Tribunal, are available to individuals dissatisfied with decisions rendered at the reconsideration level. A Review Tribunal is an independent body that does act on behalf of the Minister, the appellant or any other party to an appeal. Each Review Tribunal consists of three qualified persons selected by the Commissioner of Review Tribunals from a panel of 100 to 300 members. The chairperson is always a member of the legal profession. If a disability benefit is involved, as in over 95% of the cases heard, at least one of the other members is a health care professional. Hearings are informal, closed to the public and usually held in or near the appellant's community. Table 16 provides an overview of the workload of Review Tribunals by fiscal year ending March 31.

Table 16 – **Appeals to Review Tribunal**

	1994-95 (Actual)	1995-96 (Estimated)	% increase
Appeals to review tribunals	4,872	8,000	64.2
Decision reversed by ISP or appeal withdrawn prior to hearing	2,076	2,100	
Cases for tribunal hearings	4,234	7,700	81.9
• Appeals allowed	520	750	
• Appeals dismissed	1,859	2,750	
• Hearings adjourned	94	200	
Total hearings held	2,473	3,700	49.6
Cases outstanding at year end	1,834	4,200	129.0

As of March 31, 1996, the outstanding caseload of 4,200 files represents about a four month workload. New measures implemented by ISP to assess eligibility for disability benefits have resulted in a significant increase in the percentage of cases denied at initial adjudication and at the reconsideration stage. As a result, the average monthly appeals to Review Tribunals for the last quarter of 1995-96 approached 1,000 per month; more than double that of the corresponding period for 1994-95. However, significant improvement has been made in 1995-96 by ISP in decreasing the percentage of reconsideration decisions reversed through an appeal to a Review Tribunal.

It is estimated that, in 1996-97, appeals to Review Tribunals will exceed 12,000 cases and some 8,000 hearings will be held.

Third-level appeals are heard by the Pension Appeals Board (PAB), consisting of judges appointed by Order-in-Council. Board decisions are binding, and may be subject to judicial review by the Federal Court.

The impact of the increased number of appeals at the first and second levels began to reflect in the workload of the PAB in late 1995. Additional medical advisors have been hired to cope with this increased workload. Temporary members have been appointed to the PAB based on the provisions of Bill C-54 which allowed temporary appointments.

In 1995-96, it is estimated that approximately 1,100 decisions of the Review Tribunals were appealed to the Pension Appeals Board; of this number, 11% by the Minister and the balance by appellants and other parties. Table 17 illustrates the level of activity for the PAB.

Keeping Track of Contributions

A record of earnings account is maintained for each of the 22.1 million contributors to the Canada Pension Plan. The account information, which is recorded against a contributor's social insurance number, is used to determine eligibility and to calculate the value of pensions to be paid.

In an effort to promote awareness and understanding of Canadians' rights and obligations under the CPP, personalized statements of earnings and contributions are mailed to all CPP contributors on a regular basis.

The statement includes an estimate of the benefits that would be payable as of the date of the statement. It also provides a snapshot of the earnings and contributions amounts credited to their account, and an opportunity for the contributor to ensure that their record of earnings is correct. During 1996, 1.8 million Statements will be mailed to contributors 35 to 40 years of age.

Table 17 – Pension Appeals Board, Third-level Appeals

Description	1993-94 Actual	1994-95 Actual	1995-96 Estimated
Workload – April 1st	191	415	591
Incoming workload	498	690	1106
Decision rendered	274	514	609
Cases pending at year end	415	591	875

Ensuring Accurate Records of Earnings

Special files are maintained to record earnings and contributions data that cannot be credited to any contributor's account because of incomplete or incorrect information reported by employees or employers. By the end of 1995, there were over 4.2 million identified records, representing about $120 million in contributions.

In partnership with Revenue Canada, the QPP, Québec Revenue and the department's Central Index Services, several new computer programs and processes have been developed and implemented to improve the quality of the data placed on contributor's accounts to ensure more accurate payments. Some of these improvements have resulted in substantial savings to the CPP Account.

For example, there is a new process which prevents the creation of 8,000 duplicate postings per year from being recorded on a "dual contributor's" account. A "dual contributor" is an individual who has made contributions to both the CPP and the QPP. This process will ensure that CPP pensions are not paid at an inflated rate which the client must repay when the error is detected.

Another project uses automated processes developed at Revenue Canada to reduce unidentified entries with invalid social insurance numbers. The incidence of invalid numbers has been reduced by 58%; that is, 650,968,

Central Index Services, which maintains the social insurance number registration program, work closely with the CPP administration, Revenue Canada and the QPP to ensure that the social insurance register has the most accurate information possible. The impact of ISP Redesign on the register is also monitored closely.

The number of social insurance numbers issued during 1995-96 was 693,933, up sharply from the 1994-95 total of 650,198. Since the program began the total social insurance numbers issued is 31,691,834 as of March 1996.

Ensuring Program Integrity

During 1995-96 the department completed a detailed review of a random sample of CPP files "in pay" during 1994. These reviews provide the department and the Auditor General of Canada, who uses them as part of the annual audit of the CPP Account, with a conservative, statistically-based estimate of monetary errors in each program. The nature and extent of the errors is identified and proposals for remedying or reducing them are provided.

Preliminary estimates indicate that while CPP mispayments may be as high as $61 million, the most likely amount is approximately $23 million. That represents approximately 0.17% of the total 1994 CPP pay out of $13.4 billion. In order to measure continuous improvement, these reviews will be conducted annually.

In 1995, Treasury Board approved a two-year plan to provide supplementary funding for other initiatives. The funding, which began in 1995-96, is contingent upon realizing a minimum return on investment of 5:1 in each year.

One initiative is targeted at 53,000 beneficiaries between 18 and 25 years old, who must be in full-time attendance at an educational institution to qualify for benefits. This review is expected to yield

$1.3 million in savings with the identification of unreported drop-outs during the school year.

There are two other initiatives planned for 1996-97. Both will determine the extent of overpayment for clients receiving a full surviving spouse's entitlement in situations where a reduction should have occurred. These initiatives are expected to return $1.2 million in savings at a cost of about $98,000.

During 1995-96, 42 suspected CPP fraud cases were referred to the RCMP for criminal investigation with a value of $748,464. Of these cases, 22, in the amount of $658,234, related to CPP disability. Approximately $211,527 was recovered in 1995-96 from CPP fraud cases from previous years.

The EI/CPP data match project is a joint venture between the Employment Insurance Program and the Canada Pension Plan. The project was initiated in April 1995 and is resourced by EI and CPP funds. The project consists of identifying and investigating clients who receive EI and CPP retirement or disability benefits, and clients with a record of employment reported to EI but not to CPP while receiving CPP disability benefits.

The objectives are to ensure that benefits are paid only to those entitled to receive them, to prevent overpayment, and to provide a deterrent for abuse or fraud of CPP and EI programs. Combined estimated savings for EI and CPP are $27 million. The total cost of CPP support to this project is projected at $1.8 million.

Managing Accounts Receivable

A new corporate accounts receivable and collection system was introduced, known as the Departmental Accounts Receivable System (DARS) to enhance the management control, collection and reporting of overpayments.

During 1995-96, CPP accounts were reviewed to ensure accurate recording of overpayments and the data transferred to DARS. A group of specialized debt collectors is now pursuing CPP overpayments on accounts not involving fraud or with a benefit in pay. During the period from September 1995 to December 1995, about $2.2 million in payments was recovered on these accounts.

Supporting Our Systems

Business systems support ensures that the CPP application system operates effectively. To provide stability for the conversion to CSDN, no further changes were permitted to the existing CPP legacy system beginning in fiscal year 1995-96, unless the changes were deemed essential; for example, to accommodate legislated changes, correct mispayment situations, emergencies affecting systems performance or data clean-up in support of ISP Redesign conversion activities.

Within these limitations, work has continued in order to respond to the provisions of Bill C-54, implement new withholding tax agreements at source for non-resident CPP recipients, and provide CPP information to provincial social services departments. Support for the Rules Based Reassessment System interface with the legacy system continued throughout the year.

In support of ISP Redesign, disability account maintenance was regionalized. By June 1996, most disability accounts will have been transferred to the regions.

Communicating with Our Clients

The department's CPP communications strategy continues in its second year. Funded through a Treasury Board submission the initiative seeks to improve public awareness of the benefits and provisions of the CPP, and respond to remarks made by the Auditor General of Canada and others about the general lack of awareness by Canadians of public pensions. Resources for the CPP communication strategy were $3.6 million for 1995-96.

The initiative is comprised of the headquarters communications unit which advises and supports CPP managers, senior officials and the Minister, and regional program outreach teams who provide facts about CPP benefits and services at the local level. Activities in 1995-96 included:

- consumer and trade shows
- seminars for financial planners, personnel managers, unions, hospitals, agencies, organizations, and companies facing downsizing
- internal and external training sessions for service deliverers
- establishing partnerships with third parties, such as employers and social services; and
- development of products such as publications and audio visual materials

During fiscal year 1995-96, the total number of clients reached through these communication efforts was just over 1.5 million.

Evaluations of the communications strategy in 1995-96 indicated that partnership activities with large employers and associations proved very effective in reaching large numbers of clients at a reasonable cost.

In addition to work through the communications strategy, the communications unit also provided support to departmental initiatives such as the work incentive measures for CPP disability beneficiaries announced in April 1995. As well, efforts continued to make information about CPP more relevant and accessible by means of easy-to-read materials and alternative formats which have proven especially valuable for persons with a visual impairment.

In 1995-96 the department launched its ISP Internet home page which provides information on all Income Security Programs including the CPP. The ISP home page can be found at http://www.hrdc-drhc.gc.ca/hrdc/isp/ispind_e.html

Credit Splitting

The equal division of CPP "pension credits" – built up by a couple while they lived together – is mandatory and automatic once the Minister receives the necessary information about a divorce. Credit splitting also applies to separated spouses, both married and common-law, upon application. Couples cannot waive the right to credit splitting except in Saskatchewan, Quebec and B.C.

Efforts to increase the public's awareness of this provision have resulted in an 11 percent participation rate. This was accomplished through such activities as attendance at information fairs and the mailing of information kits to separated or divorced

couples. As a percentage of divorced couples, the rate for credit splitting has risen from 5.8 in 1991 to 9.2 percent in 1993.

Although the credit splitting provision is mandatory, no means exist to effect automatic credit splitting; the department continues to look for ways to carry out its mandate more effectively. At present, information on divorcing couples is received from the Department of Justice and the provinces. Revenue Canada provides information about couples who change marital status so they can be notified about credit splitting provisions.

Establishing Information Sharing and Reimbursements Agreements

The department continues to pursue information sharing and reimbursement agreements with provincial governments, municipal authorities and private insurers and the CPP.

There are 12 agreements with provincial governments, mainly for the assignment of retroactive CPP benefit payments to provincial authorities who have made social assistance payments. As well, some agreements allow the sharing of information to identify potential recipients for provincial supplementary benefits.

New provincial agreements were implemented with Saskatchewan and Nova Scotia and several others are being negotiated. Discussions are taking place with the province of Alberta for a pilot project to share information with the Workers' Compensation Board of Alberta. A number of other provinces have indicated interest in negotiating similar arrangements.

The 38 agreements with private insurers allow them to be reimbursed for that portion of the disability benefit that would not have been payable had the client been in receipt of CPP benefits.

Changes to Legislation and Regulations

Most of the provisions in Bill C-54, an Act to amend the Old Age Security Act, the Canada Pension Plan, the Children's Special Allowances Act and the Unemployment Act received Royal Assent and came into force on July 13, 1995. The most significant amendment for CPP is the provision which permits up to one year of retroactivity to persons who apply for their retirement pension after age 65.

Other minor amendments to the Act and changes to the related regulations will come into force in the early fall of 1996.

Facing Charter Challenges

ISP continues to defend its programs against a number of major challenges under the Canadian Charter of Rights and Freedoms. The Charter challenges against the CPP involve the provisions for survivor benefits, disability benefits and credit splitting. The major issues raised are that survivor benefit provisions under the CPP are discriminatory because same-sex partners are not entitled to survivor benefits; likewise, persons under 35 years of age, who are not disabled and have no dependent children are ineligible. Two cases are now proceeding through the courts while approximately 40 cases are in the CPP appeal process.

On June 13, 1995, a Review Tribunal rendered its first decision in a case concerning the provisions that deal

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

"with same-sex partners. The Review Tribunal ruled that the denial of survivor benefits to the appellant violated the Charter. The Minister is appealing the decision to the Pension Appeals Board. On April 16, 1998, the Federal Court of Appeal ruled in one case that the age provisions governing the payment of CPP survivor benefits do not discriminate contrary to Section 15 of the Charter.

Our Reciprocal Social Security Agreements

A reciprocal social security agreement allows for pensioners' social security benefits to be portable between Canada and another country. Included in these international agreements are the Canada Pension Plan and the Old Age Security programs.

The basic objectives of international agreements:

- reduce or eliminate restrictions, based on citizenship, preventing Canadians from receiving pensions from another country
- permit continuity of social security when a person is temporarily working in another country, and to prevent situations where a person contributes to the social security programs of both countries for the same work
- make it easier to become eligible for benefits by adding together periods of social security coverage under the schemes of the two countries
- reduce or eliminate restrictions on the payment of pensions abroad

As of March 31, 1998, Canada had agreements in force with 28 countries. Agreements with Mexico, New Zealand and the Philippines have been signed, but are not yet in force. There are agreements under negotiation with Chile, Croatia, Korea, Morocco, Slovenia, Trinidad and Tobago, Turkey and the United Kingdom. Table 18 outlines the number and amount of benefits paid under Social Security Agreements for 1994 and 1995.

In 1995, the total amount of foreign pensions that came into Canada from other countries exceeded $1.4 billion. By contrast, only about $294 million was paid in OAS and CPP benefits to persons living outside Canada, a ratio of about 5:1. Specific to the 28 international social security agreements, the ratio of benefits coming into Canada versus those being paid out is 7:1.

Supporting Service Delivery

The services provided to the CPP from HRDC Corporate Services are

- financial and administrative services including security and internal audit
- human resource services
- systems
- communications
- strategic policy including program evaluation
- legal services

These services support operations across the country delivering the services to CPP clients and providing program management and direction.

Table 18 CPP Benefits under Social Security Agreements

Calendar year	Number of benefits in pay at month of December	Total benefits paid in thousand $
1994	3,157	$10,654
1995	3,672	$10,934

Interface with the Québec Pension Plan (QPP)

The CPP and the QPP meet regularly to discuss issues of common concern and legislative and systems changes, particularly as related to contributors to both plans (called dual contributors).

In 1995-96, discussions dealt mostly with the ISP Redesign and its impact on joint CPP-QPP operations. Two agreements were signed dealing with the assignment of retirement pensions and providing access to each Plan's information on earnings and contributions.

In 1996-97, ways to improve the agreements between CPP and QPP will be explored, to ensure that effective links are established with the new Client Service Delivery Network, once the CPP legacy system is no longer used.

Public Works and Government Services Canada

Public Works and Government Services Canada (PWGSC) issues payments on behalf of the CPP and provides support services through the operation of information processing systems. These systems contain information on contributor earnings, benefit payments and program statistics. The cost of these services was about $16.4 million in 1995-96.

Accommodation services are also provided at a cost of about $7 million.

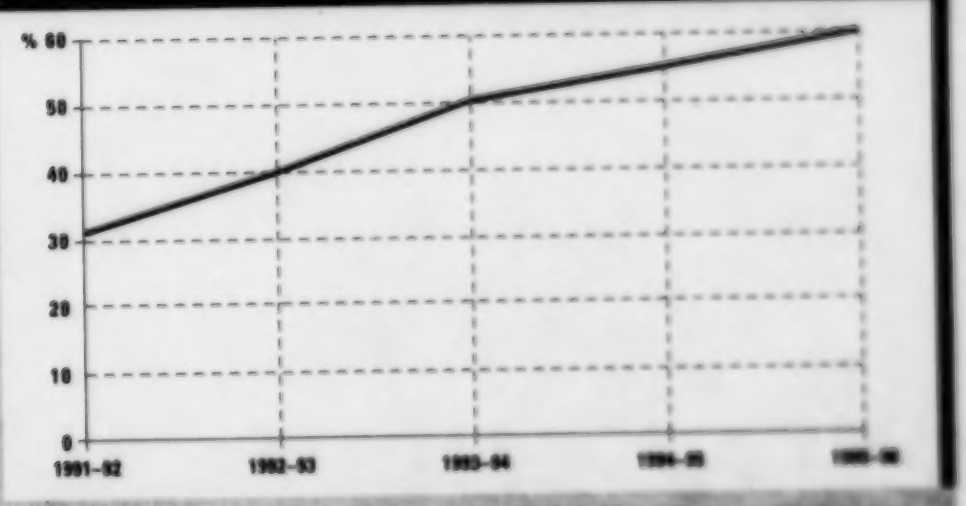
Activities and Initiatives

In 1995-96, PWGSC issued 43.1 million cheques and direct deposit payments compared with 35.6 million in 1994-95 and 35.2 million in 1993-94. This reflects the continuing increase in CPP clientele.

The percentage of benefit recipients who have chosen direct deposit continues to grow as illustrated in table 19.

During the 1995-96 fiscal year, 20.3 million payments were issued as direct deposit payments compared with 18.2 million in 1994-95.

Chart 19 – Growth in Direct Deposit



"with same-sex partners. The Review Tribunal ruled that the denial of survivor benefits to the appellant violated the Charter. The Minister is appealing the decision to the Pension Appeals Board. On April 16, 1996, the Federal Court of Appeal ruled in one case that the age provisions governing the payment of CPP survivor benefits do not discriminate contrary to Section 15 of the Charter.

Our Reciprocal Social Security Agreements

A reciprocal social security agreement allows for pensioners' social security benefits to be portable between Canada and another country. Included in these international agreements are the Canada Pension Plan and the Old Age Security programs.

The basic objectives of international agreements:

- reduce or eliminate restrictions, based on citizenship, preventing Canadians from receiving pensions from another country
- permit continuity of social security when a person is temporarily working in another country, and to prevent situations where a person contributes to the social security programs of both countries for the same work
- make it easier to become eligible for benefits by adding together periods of social security coverage under the schemes of the two countries
- reduce or eliminate restrictions on the payment of pensions abroad

As of March 31, 1996, Canada had agreements in force with 28 countries. Agreements with Mexico, New Zealand and the Philippines have been signed, but are not yet in force. There are agreements under negotiation with Chile, Croatia, Korea, Morocco, Slovenia, Trinidad and Tobago, Turkey and the United Kingdom. Table 18 outlines the number and amount of benefits paid under Social Security Agreements for 1994 and 1995.

In 1995, the total amount of foreign pensions that came into Canada from other countries exceeded $1.4 billion. By contrast, only about $294 million was paid in OAS and CPP benefits to persons living outside Canada, a ratio of about 5:1. Specific to the 28 international social security agreements, the ratio of benefits coming into Canada versus those being paid out is 7:1.

Supporting Service Delivery

The services provided to the CPP from HRDC Corporate Services are

- financial and administrative services including security and internal audit
- human resource services
- systems
- communications
- strategic policy including program evaluation
- legal services

These services support operations across the country delivering the services to CPP clients and providing program management and direction.

Table 18 – CPP Benefits under Social Security Agreements

Calendar year	Number of benefits in pay in month of December	Total benefits paid (in thousands)
1994	3,157	$10,654
1995	3,672	$10,934

Interface with the Québec Pension Plan (QPP)

The CPP and the QPP meet regularly to discuss issues of common concern and legislative and systems changes, particularly as related to contributors to both plans (called dual contributors).

In 1995-96, discussions dealt mostly with the ISP Redesign and its impact on joint CPP-QPP operations. Two agreements were signed dealing with the assignment of retirement pensions and providing access to each Plan's information on earnings and contributions.

In 1996-97, ways to improve the agreements between CPP and QPP will be explored, to ensure that effective links are established with the new Client Service Delivery Network, once the CPP legacy system is no longer used.

Public Works and Government Services Canada

Public Works and Government Services Canada (PWGSC) issues payments on behalf of the CPP and provides support services through the operation of information processing systems. These systems contain information on contributor earnings, benefit payments and program statistics. The cost of these services was about $16.4 million in 1995-96.

Accommodation services are also provided at a cost of about $7 million.

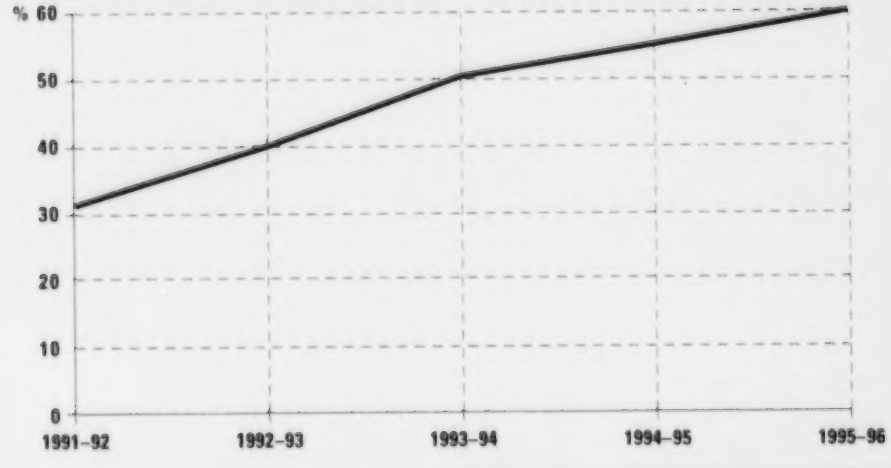
Activities and Initiatives

In 1995-96, PWGSC issued 43.1 million cheques and direct deposit payments compared with 35.6 million in 1994-95 and 35.2 million in 1993-94. This reflects the continuing increase in CPP clientele.

The percentage of benefit recipients who have chosen direct deposit continues to grow as illustrated in table 19.

During the 1995-96 fiscal year, 20.3 million payments were issued as direct deposit payments compared with 18.2 million in 1994-95.

Table 19 – Growth in Direct Deposit



A summary of tax information slips issued annually in February is presented in table 20.

Table 20 – **Information Slips Issued**

1993–94	3,015,990
1994–95	3,345,896
1995–96	3,536,684

One of the department's cost saving measures is to make direct deposit the standard method of payment for the federal government. To this end, PWGSC developed a marketing strategy to encourage all recipients to enrol for direct deposit. In February 1996, all CPP recipients who receive their benefits by cheque, were mailed a direct deposit enrolment form and a return envelope encouraging them to change to direct deposit. A follow-up campaign is planned for October 1996.

Revenue Canada

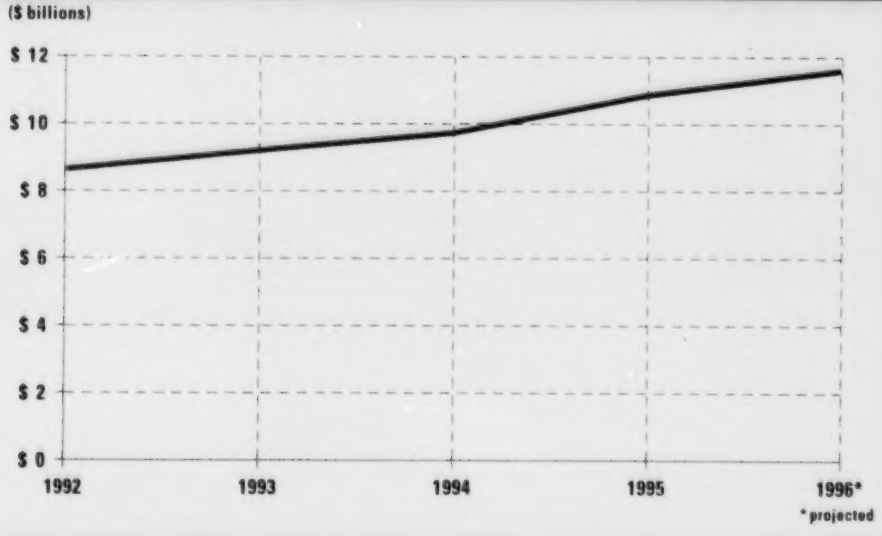
Revenue Canada (RC) administers Part I of the CPP Act which involves the determination and collection of contributions from employees, employers and the self-employed. RC provides reports on the earnings and contributions of contributors as well as statistical and other information. These activities, performed on behalf of the CPP, are fully integrated in RC's revenue collection processes and make up about 6% of the total funds collected by RC.

The cost of these services is determined by a formula involving a detailed cost survey, conducted periodically, which measures direct, indirect, and overhead costs. In subsequent years, until a new survey is done, costs will be charged on the existing ratio after adjusting for volume, wage/price index growth and other charges. In 1995-96, the cost of these services was about $61 million.

Activities and Initiatives

Revenue Canada's main activity on behalf of the CPP involves the determination and collection of contributions and related activities. Approximately 96% of the CPP contributions collected are remitted by employers and employees, and about 4% by the self-employed. The amounts collected annually are displayed in table 21.

Table 21 – **CPP Contributions Collected (in billions)**



Compliance/Enforcement

To complement the collection activity, RC assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits and reconciles reports and T-4s submitted.

The compliance and enforcement process is divided into stages based on a progressive, risk-based approach ranging from computerized matching of data to on-site audits. As well, employers may request on-site assistance for clarification on payroll withholding requirements or employees may seek advice if they feel their employer is contravening a related tax law.

Although most employers remit the proper amounts, some fail to comply usually due to cash flow problems. When contacted by RC, these employers recognize that the employee trust deductions must be properly deducted, remitted and reported. Future compliance by these employers is generally good.

There are about 1.3 million employer accounts open of which approximately 900,000 are active at any one time. Of the 379,000 potential problems identified in 1995-96 through the computer system, only about 69,000 had to be resolved by performing an audit.

The level of audit activity is summarized in table 22. Like all other RC activities, an audit consists of not only reviewing the CPP deductions and remittances, but also verifying income tax and employment insurance deduction requirements.

Rulings

RC Tax Service Offices and Tax Centres issue rulings, when requested or for enforcement purposes, on whether or not a worker is considered to be an employee with pensionable employment and earnings for which contributions are required. RC's goal is to complete these rulings within 30 days of receipt.

In 1995-96, RC made approximately 8,000 rulings for CPP purposes and an additional 30,000 involving the CPP in conjunction with Employment Insurance rulings.

Appeals

Under CPP, individuals have appeal rights for rulings and assessments. RC encourages employers to contact the Problem Resolution Program Co-ordinator before resorting to the more formal appeal process. Appeals, administered by independent appeals staff in RC Tax Service Offices, result from approximately 9.3% of the CPP rulings and assessments issued. For issues that remain unresolved, there is recourse through the judicial process ranging from the Tax Court to the Supreme Court of Canada.

Table 22 **Audit Activity and Results**

	Period ending March 31		
	1994-95	1995-96	1996-97 (projected)
Number of audits completed	66,396	69,000	65,500
Number of audits resulting in assessments for CPP	39,495	41,000	39,300
Percentage of audits resulting in assessments	59%	60%	60%

A summary of tax information slips issued annually in February is presented in table 20.

Table 20 – Information Slips Issued

1993–94	3,015,990
1994–95	3,345,896
1995–96	3,536,684

One of the department's cost saving measures is to make direct deposit the standard method of payment for the federal government. To this end, PWGSC developed a marketing strategy to encourage all recipients to enrol for direct deposit. In February 1996, all CPP recipients who receive their benefits by cheque, were mailed a direct deposit enrolment form and a return envelope encouraging them to change to direct deposit. A follow-up campaign is planned for October 1996.

Revenue Canada

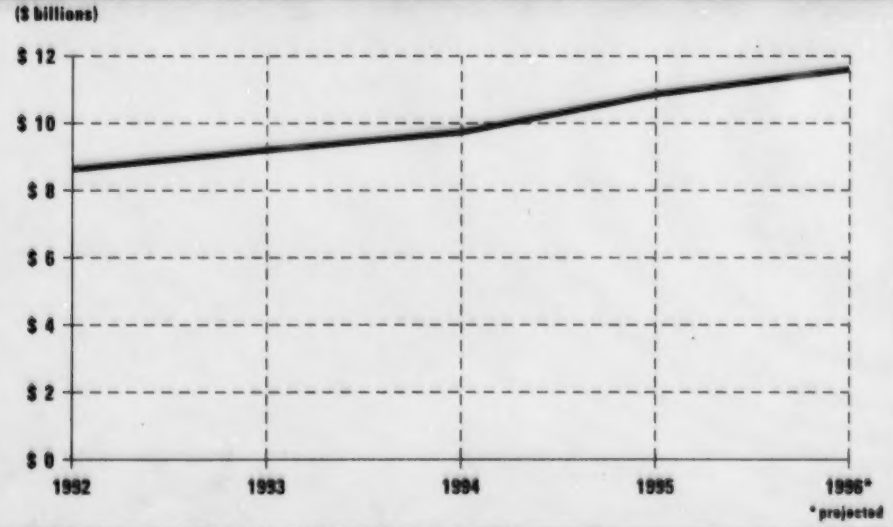
Revenue Canada (RC) administers Part I of the CPP Act which involves the determination and collection of contributions from employees, employers and the self-employed. RC provides reports on the earnings and contributions of contributors as well as statistical and other information. These activities, performed on behalf of the CPP, are fully integrated in RC's revenue collection processes and make up about 6% of the total funds collected by RC.

The cost of these services is determined by a formula involving a detailed cost survey, conducted periodically, which measures direct, indirect, and overhead costs. In subsequent years, until a new survey is done, costs will be charged on the existing ratio after adjusting for volume, wage/price index growth and other charges. In 1995-96, the cost of these services was about $61 million.

Activities and Initiatives

Revenue Canada's main activity on behalf of the CPP involves the determination and collection of contributions and related activities. Approximately 96% of the CPP contributions collected are remitted by employers and employees, and about 4% by the self-employed. The amounts collected annually are displayed in table 21.

Table 21 – CPP Contributions Collected (in billions)



Compliance/Enforcement

To complement the collection activity, RC assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits and reconciles reports and T-4s submitted.

The compliance and enforcement process is divided into stages based on a progressive, risk-based approach ranging from computerized matching of data to on-site audits. As well, employers may request on-site assistance for clarification on payroll withholding requirements or employees may seek advice if they feel their employer is contravening a related tax law.

Although most employers remit the proper amounts, some fail to comply usually due to cash flow problems. When contacted by RC, these employers recognize that the employee trust deductions must be properly deducted, remitted and reported. Future compliance by these employers is generally good.

There are about 1.3 million employer accounts open of which approximately 900,000 are active at any one time. Of the 379,000 potential problems identified in 1995-96 through the computer system, only about 69,000 had to be resolved by performing an audit.

The level of audit activity is summarized in table 22. Like all other RC activities, an audit consists of not only reviewing the CPP deductions and remittances, but also verifying income tax and employment insurance deduction requirements.

Rulings

RC Tax Service Offices and Tax Centres issue rulings, when requested or for enforcement purposes, on whether or not a worker is considered to be an employee with pensionable employment and earnings for which contributions are required. RC's goal is to complete these rulings within 30 days of receipt.

In 1995-96, RC made approximately 8,000 rulings for CPP purposes and an additional 30,000 involving the CPP in conjunction with Employment Insurance rulings.

Appeals

Under CPP, individuals have appeal rights for rulings and assessments. RC encourages employers to contact the Problem Resolution Program Co-ordinator before resorting to the more formal appeal process. Appeals, administered by independent appeals staff in RC Tax Service Offices, result from approximately 9.3% of the CPP rulings and assessments issued. For issues that remain unresolved, there is recourse through the judicial process ranging from the Tax Court to the Supreme Court of Canada.

Audit Activity and Results

	Period ending March 31		
	[illegible]	[illegible]	[illegible]
Number of audits completed	66,396	69,000	65,500
Number of audits resulting in assessments for CPP	39,495	41,000	39,300
Percentage of audits resulting in assessments	59%	60%	60%

Coverage and Extensions of Coverage under Social Security Agreements

In accordance with Canada's social security agreements with many countries, RC issues certificates of coverage and extensions of coverage relating to the CPP. In 1995-96, RC issued about 1,685 certificates of coverage and 130 extensions of coverage. In addition, foreign employers, without a place of business in Canada, may apply to have coverage under the CPP for employment they provide in Canada.

In order to better serve clients, Tax Service Offices also present seminars on various ruling-related aspects of the CPP such as "Contract of Service".

Record of Earnings

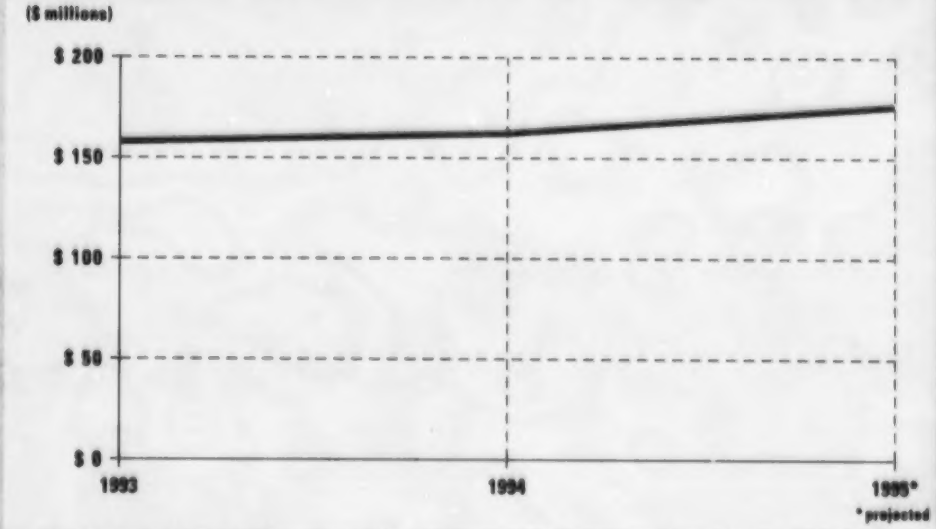
The number of incorrect entries transmitted by RC to CPP, as well as the increasing number of entries held in the unidentified files at CPP have been problems being addressed by an Interdepartmental Quality Improvement Team (RC and CPP) as a priority. The team's efforts have resulted in the quality of transmitted information improving significantly. The next step – addressing how to reduce the number of entries held on the unidentified files – will begin soon.

Overpayments and Adjustments

For the year ending December 1995, a projected $175 million in CPP overpayments were processed. Some adjustments were also necessary on CPP contributions by self-employed individuals.

Overpayments and adjustments occur when an individual is employed at two or more positions at the same time during the year and is paying contributions for each employment. At year end, RC issues a refund since contributions are only paid up to a yearly maximum pensionable earnings regardless of the number of jobs held during the year. Table 23 presents the overpayments and adjustments processed by year.

Overpayments and Adjustments Processed (in millions)



Coverage and Extensions of Coverage under Social Security Agreements

In accordance with Canada's social security agreements with many countries, RC issues certificates of coverage and extensions of coverage relating to the CPP. In 1995-96, RC issued about 1,685 certificates of coverage and 130 extensions of coverage. In addition, foreign employers, without a place of business in Canada, may apply to have coverage under the CPP for employment they provide in Canada.

In order to better serve clients, Tax Service Offices also present seminars on various ruling-related aspects of the CPP such as "Contract of Service".

Record of Earnings

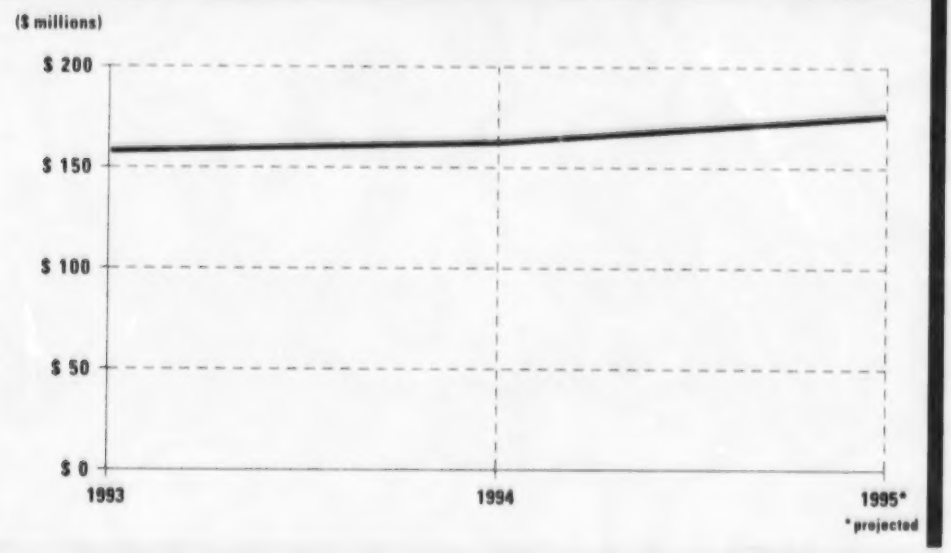
The number of incorrect entries transmitted by RC to CPP, as well as the increasing number of entries held in the unidentified files at CPP have been problems being addressed by an Interdepartmental Quality Improvement Team (RC and CPP) as a priority. The team's efforts have resulted in the quality of transmitted information improving significantly. The next step – addressing how to reduce the number of entries held on the unidentified files – will begin soon.

Overpayments and Adjustments

For the year ending December 1995, a projected $175 million in CPP overpayments were processed. Some adjustments were also necessary on CPP contributions by self-employed individuals.

Overpayments and adjustments occur when an individual is employed at two or more positions at the same time during the year and is paying contributions for each employment. At year end, RC issues a refund since contributions are only paid up to a yearly maximum pensionable earnings regardless of the number of jobs held during the year. Table 23 presents the overpayments and adjustments processed by year.

Table 23 Overpayments and Adjustments Processed (in millions)



Publicity

RC publishes information on the CPP in a variety of guides, booklets, pamphlets, circulars, and news releases. The "Index to Revenue Canada Services" and the pamphlet entitled "Alimony or Maintenance" are two examples. RC also publicizes CPP information through such activities as the "Community Volunteer Income Tax Program" and "Teaching Taxes".

Department of Finance

The Department of Finance sets CPP contribution rates in consultation with the provinces and territories, and manages the CPP Investment Fund by investing excess CPP monies in securities of provincial and territorial governments, provincial Crown agencies, or the Government of Canada in accordance with the provisions of the CPP.

All securities are non-negotiable and have a 20-year term or less as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions (OSFI). The interest rate on the securities is determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. Prior to maturity, these securities are redeemable in whole or in part at the option of the Minister of Finance, who must receive written notice six months before the proposed redemption date.

At March 31, 1996, the balance in the Investment Fund was $35.5 billion.

Activities and Initiatives

As provided for in the CPP, and to ensure the CPP's long-term financial stability, contribution rates for the 25-year schedule are reviewed every five years by the federal, provincial, and territorial Finance Ministers. "An Information Paper for Consultations on the Canada Pension Plan" released in February 1996, formed the basis of federal, provincial and territorial consultations on the CPP held across Canada beginning in April 1996. The Department of Finance co-ordinated the consultation process and established a 1-800 number for Canadians to call to obtain a copy of the Information Paper or more information on the consultation process.

Office of the Superintendent of Financial Institutions

The Chief Actuary prepares Actuarial Reports on the projected financial status of the CPP Account, calculates the effects on the CPP Account of proposed amendments to the CPP once a Bill has been introduced, and when requested and approved by HRDC, prepares actuarial estimates on proposed changes to the Plan's provisions, for the Department of Finance, HRDC or other parties.

Activities and Initiatives

In 1995-96, actuarial advice and cost estimates on hypothetical changes to the Plan's provisions, were provided to the Department of Finance, HRDC and some private professional groups. Most of the requests were related to the quinquennial review of the CPP contribution rate schedule by the federal, provincial and territorial Ministers of Finance during 1996.

Actuarial advice continued on the study paper entitled "Actuarial Monograph on the CPP", which was completed early in this fiscal year.

Work on the CPP Policy Model (DYNACAN) continues. The Social Policy Unit of the OSFI Actuarial Service Division spent most of the year working with various consultants developing a prototype of a CPP micro-simulated model by "Canadianizing" the U.S. model CORSIM II, produced by Steve Caldwell of Cornell University in Ithaca, New York. The project is progressing well and OSFI expects that the prototype will be fully completed and operational early in 1996-97.

The cost of these services was about $1.4 million in 1995-96.

The Canada Pension Plan Account

CPP Account

The CPP Account is established in the Accounts of Canada by the CPP to record the contributions, interest, pensions, benefits and administrative expenditures of the Plan. The authority to spend is limited to the balance in the Account. Table 24 presents the current forecast of the CPP Account to March 31, 1996, with the previous year's statement audited by the Auditor General of Canada, provided for comparative purposes. The Account's balance represents the excess of contributions and interest over benefits and expenditures accumulated since its inception in 1966.

Table 24 **Forecast Statement of the Canada Pension Plan Account for the Year Ended March 31, 1996**
(in thousands of dollars) (unaudited)

	1994 95	1995 96
Amounts Credited		
Contributions (employees, employers and self-employed)	$ 10,463,800	$ 10,607,274
Interest	$ 4,414,700	$ 4,375,682
TOTAL amounts credited	**$ 14,878,500**	**$ 14,982,956**
Amounts Charged		
Benefits		
• Retirement pensions	$ 9,911,253	$ 10,566,439
• Disability pensions	$ 2,593,149	$ 2,535,396
• Survivors' pensions	$ 2,066,105	$ 2,217,498
• Death benefits	$ 224,108	$ 236,127
• Orphans' benefits	$ 199,955	$ 192,641
• Disabled contributors' child benefits	$ 261,973	$ 256,419
Sub-total	**$ 15,256,543**	**$ 16,004,520**
Expenses		
• Benefit Administration (HRDC)	$ 117,947	$ 141,637
• Collection of contributions (RC)	$ 57,586	$ 60,850
• Cheque issue and computer services (PWGSC)	$ 16,592	$ 16,400
• Accommodation (PWGSC)	$ 7,116	$ 7,259
• Actuarial services (OSFI)	$ 813	$ 1,399
• Prior year adjustments	$ 190	–
Sub-total	**$ 200,244**	**$ 227,545**
TOTAL EXPENDITURES	**$ 15,456,787**	**$ 16,232,065**
Balance at the beginning of year	$ 40,951,114	$ 40,372,827
Decrease in balance	$ 578,287	$ 1,249,109
Balance at end of the year	**$ 40,372,827**	**$ 39,123,718**
End-of-year balance represented by:		
• Canada Pension Plan Investment Fund	$ 36,966,772	$ 35,530,897
• Operating balance on deposit with the Receiver General for Canada	$ 3,406,055	$ 3,592,821
TOTAL	**$ 40,372,827**	**$ 39,123,718**

The Canada Pension Plan Account

CPP Account

The CPP Account is established in the Accounts of Canada by the CPP to record the contributions, interest, pensions, benefits and administrative expenditures of the Plan. The authority to spend is limited to the balance in the Account. Table 24 presents the current forecast of the CPP Account to March 31, 1996, with the previous year's statement audited by the Auditor General of Canada, provided for comparative purposes. The Account's balance represents the excess of contributions and interest over benefits and expenditures accumulated since its inception in 1966.

Table 24 Forecast Statement of the Canada Pension Plan Account for the Year Ended March 31, 1996
(in thousands of dollars) (unaudited)

	1995-96	1994-95
Amounts Credited		
Contributions (employees, employers and self-employed)	$ 10,483,900	$ 10,607,274
Interest	$ 4,414,700	$ 4,375,682
TOTAL amounts credited	**$ 14,898,500**	**$ 14,982,956**
Amounts Charged		
Benefits		
• Retirement pensions	$ 9,911,253	$ 10,560,470
• Disability pensions	$ 2,593,149	$ 2,535,396
• Survivors' pensions	$ 2,068,100	$ 2,217,498
• Death benefits	$ 224,108	$ 236,127
• Orphans' benefits	$ 199,955	$ 192,641
• Disabled contributors' child benefits	$ 281,975	$ 256,419
Sub-total	**$ 15,256,540**	**$ 16,394,529**
Expenses		
• Benefit Administration (HRDC)	$ 117,947	$ 101,637
• Collection of contributions (RC)	$ 57,500	$ 60,950
• Cheque issue and computer services (PWGSC)	$ 16,592	$ 15,400
• Accommodation (PWGSC)	$ 7,116	$ 7,259
• Actuarial services (OSFI)	$ 813	$ 1,599
• Prior year adjustments	$ 190	-
Sub-total	**$ 200,244**	**$ 237,945**
TOTAL EXPENDITURES	**$ 15,456,787**	**$ 16,632,865**
Balance at the beginning of year	$ 40,951,109	$ 40,372,827
Decrease in balance	$ 978,282	$ 1,246,109
Balance at end of the year	**$ 40,372,827**	**$ 39,126,718**
End-of-year balance represented by:		
• Canada Pension Plan Investment Fund	$ 36,966,772	$ 35,626,697
• Operating balance on deposit with the Receiver General for Canada	$ 3,406,055	$ 3,500,021
TOTAL	**$ 40,372,827**	**$ 39,126,718**

The CPP Account, which is audited annually by the Auditor General of Canada, *(see page 49)* is a separate account in the Accounts of Canada. The Account is intended to hold about two years' worth of benefits. As of March 31, 1996, the balance in the Account of about $39.1 billion equals 2.44 years' worth of benefits. These funds provide a reserve in the event of circumstances such as lower than expected contributions because of economic conditions or higher than expected benefit payments.

The CPP Account comprises an operating reserve and the CPP Investment Fund. The operating reserve is maintained at a level to meet the anticipated benefit payments and administrative charges from the Account for the next three-month period. These funds may not be invested in provincial securities but earn interest on the average daily balance of the reserve. The interest paid on these funds is calculated by averaging the unweighted average yields at tender on three-month Treasury Bills during the month the interest is paid, less one-eighth of one percent. During 1995-96, the average interest rate earned by the operating reserve was 6.21%. All funds in excess of this, as determined by HRDC, are invested in securities.

Table 25 summarizes the forecasted receipts and disbursements for the Account as identified in the Fifteenth Actuarial Report released in early 1995. That report concluded that the Account would be depleted by 2015 if changes were not made to the 25-year Schedule of Contribution Rates. This subject is discussed in greater detail in the section on special initiatives.

Table 25 — **CPP Account Projection (millions of dollars)**

Year	Contributions	Expenditures	Investment earnings	Change in account	Year end balance in account
1994	$ 10,415	$ 15,380	$ 4,436	$ -529	$ 41,191
1995	11,390	16,456	4,394	-672	40,519
1996	12,471	17,489	4,308	-710	39,808
1997	13,612	18,616	4,200	-796	39,013
1998	14,909	19,811	4,097	-806	38,207
1999	16,385	21,109	3,971	-753	37,454
2000	18,019	22,530	3,818	-693	36,760
2001	19,777	24,130	3,645	-708	36,052
2002	21,598	25,881	3,394	-889	35,163
2003	23,598	27,714	3,087	-1,029	34,134
2004	25,756	29,712	2,893	-1,063	33,091
2005	28,041	31,858	2,640	-1,177	31,914
2006	30,388	34,160	2,441	-1,333	30,581
2007	32,833	36,675	2,255	-1,587	28,994
2008	35,425	39,420	2,095	-1,899	27,095
2009	38,117	42,378	1,920	-2,341	24,754
2010	40,998	45,541	1,722	-2,822	21,932
2011	44,147	48,905	1,516	-3,243	18,689
2012	47,384	52,479	1,304	-3,811	14,878
2013	50,774	56,351	1,053	-4,524	10,353
2014	54,308	60,475	755	-5,415	4,939
2015	58,211	64,855	403	-6,240	-1,302
2016	62,342	69,584	1	-7,161	-8,463

CPP Investment Fund

In accordance with the CPP, excess funds are invested in securities of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. All securities are carried at cost, are non-negotiable, and have a 20-year term or less, as fixed by the Minister of Finance on the recommendation of the Chief Actuary. The share of total CPP contributions credited to a province or territory during the preceding ten years determines the distribution of investments among the provinces and territories. Funds not accepted by the provinces as well as excess funds received from armed forces personnel and other employees outside of Canada are invested in Government of Canada securities.

At March 31, 1996, the balance in the Investment Fund was $35.5 billion with all securities held having a 20-year term.

Prior to maturity, these securities are redeemable in whole or in part, at the option of the Minister of Finance, who must receive written notice six months before the proposed redemption date.

Interest

The interest rate on the securities is determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. Table 26 summarizes the status of the Investment Fund as of March 31, 1996.

Table 26 – Statement of The Canada Pension Plan Investment Fund for the Year Ended March 31 1996 (in thousands of dollars)

Investment in Securities	Balance at Beginning of Year April 1 1995	Securities Redeemed	Balance at End of Year March 31 1996	Percentage
Provinces and Territories				
Newfoundland	$ 766,693	$ 29,429	$ 737,264	2.08
Prince Edward Island	167,929	6,042	161,887	0.46
Nova Scotia	1,394,037	57,325	1,336,712	3.76
New Brunswick	1,031,704	43,184	988,520	2.78
Ontario	16,553,793	784,084	15,769,709	44.38
Quebec	126,807	8,021	118,786	0.33
Manitoba	1,958,881	83,370	1,875,511	5.28
Saskatchewan	1,650,068	62,596	1,587,472	4.47
Alberta	4,613,938	137,694	4,476,244	12.60
British Columbia	5,210,745	213,913	4,996,832	14.06
Yukon Territory	3,726	0	3,726	0.01
Northwest Territories	0	0	0	0.00
Canada	3,488,451	10,217	3,478,234	9.79
Total	**36,966,772**	**1,435,875**	**35,530,897**	**100.00**

The CPP Account, which is audited annually by the Auditor General of Canada, *(see page 43)* is a separate account in the Accounts of Canada. The Account is intended to hold about two years' worth of benefits. As of March 31, 1996, the balance in the Account of about $39.1 billion equals 2.44 years' worth of benefits. These funds provide a reserve in the event of circumstances such as lower than expected contributions because of economic conditions or higher than expected benefit payments.

The CPP Account comprises an operating reserve and the CPP Investment Fund. The operating reserve is maintained at a level to meet the anticipated benefit payments and administrative charges from the Account for the next three-month period. These funds may not be invested in provincial securities but earn interest on the average daily balance of the reserve. The interest paid on these funds is calculated by averaging the unweighted average yields at tender on three-month Treasury Bills during the month the interest is paid, less one-eighth of one percent. During 1995-96, the average interest rate earned by the operating reserve was 6.21%. All funds in excess of this, as determined by HRDC, are invested in securities.

Table 25 summarizes the forecasted receipts and disbursements for the Account as identified in the Fifteenth Actuarial Report released in early 1995. That report concluded that the Account would be depleted by 2015 if changes were not made to the 25-year Schedule of Contribution Rates. This subject is discussed in greater detail in the section on special initiatives.

Table 25 – **CPP Account Projection (millions of dollars)**

Year	Contributions	Expenditures	Investment earnings	Change in account	Year end balance in account
1994	$ 10,415	$ 15,380	$ 4,436	$ -529	$ 41,191
1995	11,390	16,456	4,394	-672	40,519
1996	12,471	17,489	4,308	-710	39,808
1997	13,612	18,616	4,208	-796	39,013
1998	14,909	19,811	4,097	-806	38,207
1999	16,385	21,109	3,971	-753	37,454
2000	18,019	22,530	3,818	-693	36,760
2001	19,777	24,130	3,645	-708	36,052
2002	21,598	25,861	3,394	-869	35,183
2003	23,598	27,714	3,087	-1,029	34,154
2004	25,756	29,712	2,893	-1,063	33,091
2005	28,041	31,858	2,640	-1,177	31,914
2006	30,386	34,160	2,441	-1,333	30,581
2007	32,833	36,675	2,255	-1,587	28,994
2008	35,425	39,420	2,095	-1,899	27,095
2009	38,117	42,378	1,920	-2,341	24,754
2010	40,998	45,541	1,722	-2,822	21,932
2011	44,147	48,905	1,516	-3,243	18,689
2012	47,364	52,479	1,304	-3,811	14,878
2013	50,774	56,351	1,053	-4,524	10,353
2014	54,306	60,475	755	-5,415	4,939
2015	58,211	64,855	403	-6,240	-1,302
2016	62,342	69,504	1	-7,161	-8,463

CPP Investment Fund

In accordance with the CPP, excess funds are invested in securities of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. All securities are carried at cost, are non-negotiable, and have a 20-year term or less, as fixed by the Minister of Finance on the recommendation of the Chief Actuary. The share of total CPP contributions credited to a province or territory during the preceding ten years determines the distribution of investments among the provinces and territories. Funds not accepted by the provinces as well as excess funds received from armed forces personnel and other employees outside of Canada are invested in Government of Canada securities.

At March 31, 1996, the balance in the Investment Fund was $35.5 billion with all securities held having a 20-year term.

Prior to maturity, these securities are redeemable in whole or in part, at the option of the Minister of Finance, who must receive written notice six months before the proposed redemption date.

Interest

The interest rate on the securities is determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. Table 26 summarizes the status of the Investment Fund as of March 31, 1996.

Table 26 – **Statement of The Canada Pension Plan Investment Fund for the Year Ended March 31,1996 (in thousands of dollars)**

Investment in Securities	Balance at Beginning of Year April 1, 1995	Securities Redeemed	Balance at End of Year March 31, 1996	Percentage
Provinces and Territories				
Newfoundland	$ 766,693	$ 29,429	$ 737,264	2.08
Prince Edward Island	167,929	6,042	161,887	0.46
Nova Scotia	1,394,037	57,325	1,336,712	3.76
New Brunswick	1,031,704	43,184	988,520	2.78
Ontario	16,553,793	784,084	15,769,709	44.38
Quebec	126,807	8,021	118,786	0.33
Manitoba	1,958,881	83,370	1,875,511	5.28
Saskatchewan	1,650,068	62,596	1,587,472	4.47
Alberta	4,613,938	137,694	4,476,244	12.60
British Columbia	5,210,745	213,913	4,996,832	14.06
Yukon Territory	3,726	0	3,726	0.01
Northwest Territories	0	0	0	0.00
Canada	3,488,451	10,217	3,478,234	9.79
Total	**36,966,772**	**1,435,875**	**35,530,897**	**100.00**

In 1995-96, the Investment Fund earned about $4.4 billion in interest, which was deposited in the CPP Account. Maturing securities are regularly redeemed with the principal and any outstanding interest reimbursed by the provinces and territories. In 1995-96, $1.436 billion in securities bearing an average interest rate of 8.98% matured and were redeemed. All interest and principal payments have always been paid by the provinces and territories when due.

Although no funds have been available to invest in securities since March 31, 1993, surplus funds have been available on a periodic basis for short-term investments. These funds could not be invested in longer term securities because of the requirement to maintain a three-month operating reserve. As a result, short-term investments of $1.379 billion were made during 1995-96.

Rates of Return

Securities currently held – including securities bought in the early 1980s, when the interest rates were relatively high – bear a weighted average annual rate of return of 11.16%. Since all securities are held for a 20-year term, the average rate of return for the securities held in the Investment Fund will remain above 10.42% for the next 15 years and earn about 11.5% interest annually for the next seven years.

Administrative Costs

The approximately $227 million annual cost to administer the CPP is shared among all departments responsible for delivering CPP services. Human Resources Development Canada (HRDC) accounts for the largest portion, $142 million; Revenue Canada (RC) spends about $61 million; Public Works and Government Services Canada (PWGSC) about $23 million and Office of the Superintendent of Financial Institutions (OSFI) about $1 million.

Costs are allocated to the CPP based on the costing principles approved by Treasury Board and included in the Memorandum of Understanding established with each department. The underlying characteristics of the costing principles are that the charges have a causal relationship to the CPP for their occurrence and are traceable.

As a ratio of costs-to-benefits-paid, administrative expenses represent 1.25% of the $16 billion in benefits paid. This ratio compares favourably with that of other pension plans.

Table 27 presents the administrative expenditure forecasts for the coming years.

Table 27 Summary of Estimated CPP Administrative Costs Forecast of Expenditures by Department/Branch 1995-1996 to 1999-2000 (in thousands)

	FORECASTS				
	1995-96	1996-97	1997-98	1998-99	1999-00
HRDC administration	$ 141,637	$ 123,528	$ 66,513	$ 56,190	$ 54,074
Revenue Canada	$ 60,850	$ 62,009	$ 63,788	$ 65,720	$ 67,711
PWGSC-Services	$ 16,400	$ 14,900	$ 14,900	$ 14,900	$ 14,900
PWGSC-Accommodation	$ 7,259	$ 7,259	$ 5,700	$ 4,100	$ 4,060
OSFI	$ 1,399	$ 1,436	$ 1,430	$ 1,448	$ 1,482
Total	**$ 227,545**	**$ 209,132**	**$ 152,331**	**$ 142,358**	**$ 142,227**

In 1995-96, the Investment Fund earned about $4.4 billion in interest, which was deposited in the CPP Account. Maturing securities are regularly redeemed with the principal and any outstanding interest reimbursed by the provinces and territories. In 1995-96, $1.436 billion in securities bearing an average interest rate of 8.98% matured and were redeemed. All interest and principal payments have always been paid by the provinces and territories when due.

Although no funds have been available to invest in securities since March 31, 1993, surplus funds have been available on a periodic basis for short-term investments. These funds could not be invested in longer term securities because of the requirement to maintain a three-month operating reserve. As a result, short-term investments of $1.379 billion were made during 1995-96.

Rates of Return

Securities currently held – including securities bought in the early 1980s, when the interest rates were relatively high – bear a weighted average annual rate of return of 11.16%. Since all securities are held for a 20-year term, the average rate of return for the securities held in the Investment Fund will remain above 10.42% for the next 15 years and earn about 11.5% interest annually for the next seven years.

Administrative Costs

The approximately $227 million annual cost to administer the CPP is shared among all departments responsible for delivering CPP services. Human Resources Development Canada (HRDC) accounts for the largest portion, $142 million; Revenue Canada (RC) spends about $61 million; Public Works and Government Services Canada (PWGSC) about $23 million and Office of the Superintendent of Financial Institutions (OSFI) about $1 million.

Costs are allocated to the CPP based on the costing principles approved by Treasury Board and included in the Memorandum of Understanding established with each department. The underlying characteristics of the costing principles are that the charges have a causal relationship to the CPP for their occurrence and are traceable.

As a ratio of costs-to-benefits-paid, administrative expenses represent 1.25% of the $16 billion in benefits paid. This ratio compares favourably with that of other pension plans.

Table 27 presents the administrative expenditure forecasts for the coming years.

Table 27 – **Summary of Estimated CPP Administrative Costs Forecast of Expenditures by Department/Branch – 1995-1996 to 1999-2000 (in thousands)**

	FORECASTS				
	1995 96	1996 97	1997 98	1998 99	1999 00
HRDC administration	$ 141,637	$ 123,528	$ 66,513	$ 56,190	$ 54,074
Revenue Canada	$ 60,850	$ 62,009	$ 63,788	$ 65,720	$ 67,711
PWGSC-Services	$ 16,400	$ 14,900	$ 14,900	$ 14,900	$ 14,900
PWGSC-Accommodation	$ 7,259	$ 7,259	$ 5,700	$ 4,100	$ 4,060
OSFI	$ 1,399	$ 1,436	$ 1,430	$ 1,448	$ 1,482
Total	**$ 227,545**	**$ 209,132**	**$ 152,331**	**$ 142,358**	**$ 142,227**

Annual Report of the Canada Pension Plan (CPP) Advisory Board for the year ended March 31, 1996

Mandate and Role

The Advisory Board is a statutory body established under Section 116 of the **Canada Pension Plan (CPP)**. The role of the Board is to review the operation of the Act, the state of the Canada Pension Plan Investment Fund, and the adequacy of coverage and benefits provided under the Plan. The Board reports the results of its findings and makes appropriate recommendations to the Minister responsible for the Canada Pension Plan.

Composition

The Advisory Board is to consist of not more than 16 members appointed by the Governor in Council to represent employees, employers, self-employed persons and the public. During the past year, the terms of six Board members including that of the Chairman expired. Ten new members and a new Chairman were appointed to the Board in January 1996. As of the fiscal year end, there are fourteen members. The Board membership is listed at the end of this report.

Board Activities

The Canada Pension Plan Advisory Board met once during 1995. The spring meeting of the Advisory Board was held in Ottawa on May 4 and 5, 1995. As part of its mandate, the Board examined annual reports of all government departments and agencies that have responsibilities for various aspects of the operation of the CPP. Board members were provided with policy, legislative and administrative updates, and informed of the on-going progress of the Income Security Programs Redesign Project. The Board also received presentations on the status of the Evaluation of the Canada Pension Plan, the role of the Department of Finance with respect to the CPP and on pension policy, and on the effectiveness framework of the Canadian Comprehensive Auditing Foundation. The fall meeting was postponed pending appointments to the Board. An orientation session was held on March 5 and 6, 1996, for the newly appointed members.

Board Reports

The **Report of the Committee on Disability Issues** was tabled in Parliament on May 5, 1995. The report contains the following summary of recommendations:

1. Resources should be made available for activities which have a clear financial payback to the CPP Fund.
2. We see no need to amend the general eligibility provisions for the CPP Disability Benefit at this time.
3. We recommend that a project be set up to develop rules and legislative amendments to encourage people who have already qualified for a CPP Disability Benefit to participate in rehabilitation or modified work, with the possibility of continuing to receive a partial CPP benefit, or if necessary,

to revert to a full benefit more simply than an initial claimant.

4. We do not propose a change to the current level of the CPP Disability Benefit at this time.
5. We do not support a requirement that CPP Disability Benefit recipients be transferred to retirement benefit at age 60 rather than at age 65.
6. We recommend a careful monitoring of the Redesign project and the Departmental Re-organization currently underway to ensure that they lead to increased efficiency and cost-effectiveness for the Canada Pension Plan.
7. As part of the CPP communications program, we recommend an emphasis on increasing public awareness of the importance and cost of the Disability Benefit within the CPP.

The minority statement recommends that a study be conducted to investigate the differential in the disability rates between the CPP and the QPP, and suggests that the definition of disability be reconsidered.

The **Report of the Committee on the CPP Administrative Structure** was approved at the spring Board meeting, and forwarded to the Minister for consideration on May 16, 1995. The terms of reference of the committee are:

- to examine the administrative structure of the CPP;
- to ensure that the policies and guidelines are appropriate;
- to ensure that the administrative structure delivers CPP programs in a rational manner; and, to review options and alternatives.

Committee Activity

Standing Audit Committee

Terms of Reference: to protect the CPP Account through periodic and continuing review of all administrative costs charged to the CPP Fund.

The committee met with representatives from the Canada Pension Plan Administration, (Human Resources Development Canada) on May 3, 1995, to review the departmental annual reports and to discuss the Memoranda of Understanding (MOU) which form the basis of expenses charged to the Canada Pension Plan. The Audit Committee had been tasked with reviewing all the (departmental) reports in advance of the Board meeting and reporting on this at the Board meeting. As a result of this review, the committee felt that the process could be improved if the departmental annual reports could be standardized and consolidated. The committee asked the CPP Administration to look into the possibility of preparing a consolidated annual report for 1996. This committee has been inactive since May 1995 pending new appointments to the Board.

Standing Committee on Communications

Terms of Reference: to serve as a liaison; to serve as an advisory resource; to audit the communication activities of ISP and other government departments regarding the CPP; and to report to the CPP Advisory Board on its activities.

This committee continued to audit the implementation of the CPP communications strategy and measure the success of CPP Communications tested against

the strategy. As the terms of all of the committee members expired during the summer of 1995, the committee set out a framework for future members to follow.

CPP Policy Model Committee

Terms of Reference: to review the work of the Health and Welfare group developing a CPP policy model and to offer advice and proposals on the model.

Although this committee per se has been inactive since March 1994, due to reduced Board membership, the Board has continued to monitor costs charged by the project against the CPP Fund via the Standing Audit Committee.

Sub-Committee on the CPP Consultations

At the Board's orientation session on March 5 and 6, 1996, this sub-committee was formed to review the document entitled, **An Information Paper for Consultations on the Canada Pension Plan**, which was released by the Federal, Provincial and Territorial Governments of Canada in February 1996.

CANADA PENSION PLAN ADVISORY BOARD MEMBERSHIP

Léo-Paul Landry (Chairman)	Ottawa, Ontario	Appt: 23-01-1996 Exp: 22-01-2000
Marcel Le Houillier (Vice-Chairman)	Montréal, Québec	Appt: 23-07-1986 Reappt: 23-07-1991 Exp: 22-07-1996
Louis Erlichman (past Chairman)	Ottawa, Ontario	Appt: 13-05-1987 Exp: 12-05-1992 Reappt: 15-09-1992 Exp: 14-09-1995
Robert Baldwin (former member and Chairman 1977-1986)	Ottawa, Ontario	Appt: 23-01-1996 Exp: 22-01-2000
T. Douglas Brady	Oakville, Ontario	Appt: 13-05-1992 Exp: 12-05-1995
Joan Cook	St. John's, Newfoundland	Appt: 4-01-1996 Exp: 3-01-1999
Marcel Grand Maître	Aylmer, Québec	Appt: 4-01-1996 Exp: 3-01-1999

Walter Holowack	Grande Cache, Alberta	Appt: 13-05-1992 Exp: 12-05-1995
Donald Jobe	Saint John, New Brunswick	Appt: 15-07-1992 Exp: 14-07-1995
Robert G. Kehoe	Orillia, Ontario	Appt: 3-06-1993 Exp: 2-06-1996
Victor Marshall	Etobicoke, Ontario	Appt: 3-01-1996 Exp: 4-01-1999
Kevin McKelvie	Quesnel, British Columbia	Appt: 15-07-1992 Exp: 14-07-1995
Freeman Miles	St. Eleanors, Prince Edward Island	Appt: 29-04-1993 Exp: 28-04-1996
Vangelis Nikias	Milton, Ontario	Appt: 4-01-1996 Exp: 3-01-1999
Joan Prevalnig	Winnipeg, Manitoba	Appt: 11-06-1986 Exp: 10-06-1991 Reappt: 13-05-1992 Exp: 12-05-1995
Joseph (Joe) Regan	Willowdale, Ontario	Appt: 4-01-1996 Exp: 3-01-1999
Carolyn Scott	Eastern Passage, Nova Scotia	Appt: 4-01-1996 Exp: 3-01-1999
Allan J. Simpson	Winnipeg, Manitoba	Appt: 23-01-1996 Exp: 22-01-2000
Monica Townson	Toronto, Ontario	Appt: 4-01-1996 Exp: 3-01-1999
Jean-Pierre Vidal	Montréal, Québec	Appt: 23-01-1996 Exp: 22-01-2000

The Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Financial Statements

MARCH 31, 1996

Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Management's Responsibility for the Financial Statements

The following financial statements have been prepared by Management of the Department of Human Resources Development in accordance with the accounting policies set out in note 2 to the financial statements. The integrity and objectivity of the data and estimates in these financial statements are Management's responsibility. Management is also responsible for all other information in the annual Report on the Administration of the Canada Pension Plan and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements of the Canada Pension Plan Account and the Canada Pension Plan Investment Fund

In support of its responsibility, Management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, and to ensure that transactions are in accordance with the Canada Pension Plan (Act) and Regulations, as well as the Financial Administration Act and Regulations.

The Auditor General of Canada, the Canada Pension Plan external auditor, audits the financial statements and reports to the Minister of Human Resources Development.

David A. Good
Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe
Deputy Minister

July 26, 1996

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Human Resources Development

I have audited the statement of revenue, expenditures and balance of the Canada Pension Plan Account and the statement of purchases, disposals and balance of the Canada Pension Plan Investment Fund for the year ended March 31, 1998. These financial statements are the responsibility of the management of the Department of Human Resources Development. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the balances of the Account and the Investment Fund as at March 31, 1998 and the revenue and expenditures of the Account and the purchases and disposals of the Investment Fund for the year then ended in accordance with the accounting policies set out in Note 2 to the statements.

I wish to draw to your attention that, as disclosed in Note 6, overpayments for disability pensions occur and the amount could be significantly higher than the amount estimated.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
26 July 1998

Canada Pension Plan Account

Statement of Revenue, Expenditures and Balance for the year ended March 31, 1996

(in millions of dollars)

	1996	1995
Revenue		
Contributions - employees, employers and self-employed	10,607	10,464
Interest (Note 3)	4,376	4,415
	14,983	14,879
Expenditures		
Pensions (Note 6)		
Retirement	10,531	9,912
Disability	2,538	2,593
Survivors'	2,222	2,066
	15,291	14,571
Benefits (Note 6)		
Disabled contributors' child	256	262
Death	230	224
Orphans'	192	200
	678	686
Administration (Note 4)	219	200
	16,188	15,457
Decrease for the year	(1,205)	(578)
Balance at beginning of year	40,373	40,951
Balance at end of year	39,168	40,373
Represented by		
Canada Pension Plan Investment Fund	35,531	36,967
Deposit with the Receiver General for Canada	3,637	3,406
	39,168	40,373

Contingencies (Note 7)

Approved by the Department of Human Resources Development

David A. Good
Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe
Deputy Minister

Canada Pension Plan Investment Fund

Statement of Purchases, Disposals and Balance for the year ended March 31, 1996

(in millions of dollars)

Investment in securities (Note 5)	Balance at beginning of year	Purchases	Disposals	Balance at end of year
Provinces and Territory				
Newfoundland	766	-	29	737
Prince Edward Island	168	-	6	162
Nova Scotia	1,394	-	57	1,337
New Brunswick	1,032	-	43	989
Quebec	127	-	8	119
Ontario	16,554	-	784	15,770
Manitoba	1,959	-	84	1,875
Saskatchewan	1,650	-	63	1,587
Alberta	4,614	-	138	4,476
British Columbia	5,211	-	214	4,997
Yukon Territory	4	-	-	4
	33,479	-	1,426	32,053
Canada	3,488	-	10	3,478
	36,967	-	1,436	35,531

Approved by the Department of Human Resources Development

David A. Good
Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe
Deputy Minister

Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Notes to financial statements for the year ended March 31,1996

1. a) Description and authority

The Canada Pension Plan (CPP) is a federal/provincial plan established by act of Parliament in 1965 as a compulsory and contributory social insurance program. CPP is designed to provide a measure of protection to Canadian workers and their families against the loss of earnings due to retirement, disability or death. The Plan operates in all parts of Canada, except for the Province of Quebec which has a comparable program.

The Minister of Human Resources Development is responsible for the administration of the Canada Pension Plan (Act) other than Part 1. The Minister of National Revenue is responsible under Part 1 for collecting contributions. The Minister of Finance, in conjunction with the ministers of the Crown from the included provinces, is responsible for setting CPP contribution rates.

The Canada Pension Plan Account (the Account) was established in the accounts of Canada by the Act to record the contributions, interest, pensions, benefits and administration expenditures of the Plan. The authority to spend is limited to the balance of the Account.

The Canada Pension Plan Investment Fund (the Fund) was established in the accounts of Canada by the Act to record the investment in securities of the provinces, territories and Canada.

b) Financing

CPP is financed on a pay-as-you-go basis, which means that the Plan operates on a current basis with pensions and benefits being paid out of current contributions. Under the Act, pensions, benefits and expenditures incurred in the administration of the Plan are financed from the contributions made by employees, employers and self-employed persons and from the interest earned on the investment of funds not immediately needed for pensions, benefits and administrative costs.

The projected balance in the Account is planned, over time, to equal about two times the projected annual payments in the following year.

Recognizing the need for higher rates of contributions, the legislation was amended in January 1987 to incorporate a 25-year schedule of contribution rates and a provision for its review every five years by the Minister of Finance and Ministers of the Crown from the included provinces. At each review the rates of the first 20 years are modified, if the Ministers agree, and the schedule is extended for an additional five years. Agreement is required by at least two-thirds of the included provinces having in the aggregate not less than two-thirds of the population of all of the included provinces. If the Ministers do not reach agreement, the five-year extension to the schedule is automatically set by the formula contained in the regulations.

For the 1995 and 1996 calendar years, the combined employer and employee contribution rates are 5.4% and 5.6% of pensionable earnings respectively, subject to maximum combined contributions of $1,70' and $1,786. Following their last review of the schedule of contribution rates, the Ministers agreed on annual increases in the combined employer and employee contribution rates of .20% for the calendar years 1992 to 1996 to reach 5.6%, .25% for calendar years 1997 to 2006 to reach 8.1% and .20% for calendar years 2007 to 2016 to reach 10.1%. The Canada Pension Plan was amended by Bill C-39 to incorporate these changes effective January 1,1992.

The Fourteenth Actuarial Report prepared by the Chief Actuary of the Office of the Superintendent of Financial Institutions dated December 1991, projects that, based on the above contribution rates, the desirable 2:1 ratio of the Account balance to projected annual payments, will be maintained until 2002. This Report which was tabled in Parliament in April 1993, projects that the ratio will gradually decrease to 1.54:1 in 2030 and then gradually increase to re-establish the desirable 2:1 ratio in 2050.

The Fifteenth Actuarial Report was tabled in the House of Commons in February 1995. It is now being discussed by the federal Minister of Finance and the provincial Ministers. A decision on the schedule of contribution rates is required prior to January 1, 1997.

2. Accounting policies

All financial transactions affecting the Account and the Fund are governed by the Canada Pension Plan (Act) and Regulations.

The CPP is a social insurance program. Benefits are not pre-funded as they are in private pension plans. Therefore, these statements are not required to show the adequacy of the balance in the CPP account to meet, on an actuarial basis, the future obligations of the CPP.

a) **Canada Pension Plan Account**

Contributions, interest, pensions, benefits, and administration expenditures are recorded on a cash basis.

Contributions are based on an estimate of the amount of cash to be collected that relates to the year and include adjustments between actual and estimated contributions of prior years.

Administration expenditures are based on an estimate of disbursements incurred during the year and include adjustments between actual and estimated expenditures of prior years.

b) **Canada Pension Plan Investment Fund**

All investment in securities are carried at cost.

3. Interest revenue

(in millions of dollars)	1996	1995
Interest on investment in securities held by the Fund:		
Provinces and Territory		
Newfoundland	84	87
Prince Edward Island	19	19
Nova Scotia	157	159
New Brunswick	113	117
Quebec	13	14
Ontario	1,836	1,898
Manitoba	215	222
Saskatchewan	181	186
Alberta	511	519
British Columbia	574	596
Yukon Territory (less than $ 1 million)	-	-
	3,703	3,817
Canada	356	357
	4,059	4,174
Interest on short term investments (3 month term) with Canada	23	3
Interest on deposit with the Receiver General for Canada, at a weighted-average rate of 6.53% (1995 - 5.91%)	294	238
	4,376	4,415

The weighted-average rate of interest on investment in securities held by the Fund during the year was 11.20% (1995 - 11.10%).

4. Administration

(in millions of dollars)

Expenditures of the Account represent the costs of services charged by the following federal government departments and agency:

	1996	1995
Human Resources Development Canada:		
Pension and benefit delivery and corporate services	133	112
Assignment and maintenance of social insurance numbers	2	1
Revenue Canada:		
Collection of contributions	61	61
Public Works and Government Services Canada:		
Cheque issue and computer services	16	18
Accommodation	6	7
Office of the Superintendent of Financial Institutions:		
Actuarial services	1	1
	219	200

The pension and benefit delivery, charged to the Account by Human Resources Development, include $29.1 million (1995 - $16.4 million) for the Income Security Programs redesign project. At March 31, 1996 the cumulative charges to the Account for this project amount to $76.3 million. The Account's share of the total cost of the project is estimated to be $114.1 million. The expected completion date is 1997.

5. Investment in securities

The balance on deposit with the Receiver General in excess of estimated cash requirements for the following three-month period are available for the purchase of securities of the provinces, territories and Canada. As required by the Canada Pension Plan, the monies available for security purchases are allocated to the provinces and territories in proportion to the contributions received in those provinces or territories during the preceding 10 years. Securities in Canada include a portion attributed to certain other employees outside Canada and any funds which a province declines.

The securities of Quebec relate to the contributions of certain federal employees, such as members of the Canadian Armed Forces, who are residents in the Province of Quebec.

In 1995-96, there were no funds available for investment in provincial and territorial securities.

All securities are non-negotiable and have a term of 20 years or lesser period as may be determined by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions.

6. Pension and benefit mispayment

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefits payouts may be made. Such "mispayments" occur more frequently for disability pensions. There is greater subjectivity in the adjudication of these applications and, once accepted, beneficiaries must continue to meet the eligibility criteria.

The CPP Administration periodically undertakes studies of the extent and causes of pension and benefit mispayments. One study, which is almost completed for the 1994 CPP payment year, estimated, through statistical extrapolation, the most likely value of undetected mispayments at $26 million (underpayments of $11 million and overpayments of $15 million). Disability mispayments, which are part of the CPP estimate, carry a most likely mispayment value of at least $21 million (underpayments of $7 million and overpayments of $14 million). This review reflects a tightened and enhanced methodology over previous years. However, futher improvement of the procedures for subsequent studies are required to assess initial and continuing eligibility factors for disability pension. Additional management controls should be put in place to reduce the occurrence of these overpayments and CPP Management is addressing these concerns. Therefore, the extent of the overpayment could be significantly higher than $14 million.

Under the Act, when pension and benefit overpayments occur, the CPP Administration is requred to recover the amount from the beneficiary or seek approval for write-off. As the CPP Administration is unable to fully identify overpayments, it cannot record, control and collect the potential accounts receivable fom recipients.

7. Contingencies

At March 31, 1996, there were 15,231 (1995 - 17,387) appeals at various stages within the Canada Pension Plan. The estimated claims for these appeals against the Plan are $26 million (1995 - $47 million). Any claim resulting from the resolution of these appeals will be accounted for as an expenditure of the period in which the claim is paid.

A number of persons who did not previously aply for a disability benefit, but who are potentially eligble, are being assisted by their province to secure heir entitlement. Estimated unpaid retroactive entitlemnts related to these potential claims at March 31, 996 amount to $19 million.